(See "Continuing Disclosure of Information" herein)

OFFICIAL STATEMENT

Dated July 23, 2018

Ratings:
Uninsured Rating: S&P: "A+"
Insured Rating: S&P: "AA" (stable outlook)
(See "Other Information - Ratings" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel to the City, interest on the 2018 Certificates will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "Tax Matters" herein.

THE SERIES 2018 CERTIFICATES **WILL BE** DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

$2,670,000
CITY OF KAUFMAN, TEXAS
(Kaufman County)
COMBINATION TAX AND LIMITED SURPLUS REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

Dated Date: July 15, 2018
Interest Accrues from Delivery Date

Due: February 15, as shown on page 2

PAYMENT TERMS . . . Interest on the $2,670,000 City of Kaufman, Texas Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2018 (the "2018 Certificates") will accrue from the Delivery Date (defined below), and will be payable February 15 and August 15 of each year, commencing February 15, 2019, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive 2018 Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the 2018 Certificates may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the 2018 Certificates will be made to the owners thereof.** Principal of and interest on the 2018 Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the 2018 Certificates. See "The 2018 Certificates - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "The 2018 Certificates - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The 2018 Certificates are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, and constitute direct obligations of the City of Kaufman, Texas (the "City"), payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge (not to exceed $1,000) of the surplus net revenues of the City's Waterworks and Sewer System, as provided in the ordinance authorizing the 2018 Certificates (the "Ordinance") (see '"The 2018 Certificates - Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the 2018 Certificates will be used for (i) additions, extensions and improvements to the City's waterworks and sewer system, (ii) municipal drainage improvements, and (iii) paying all or a portion of costs of issuance and legal, fiscal and engineering fees in connection with these projects.

The scheduled payment of principal of and interest on the 2018 Certificates when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY. See "BOND INSURANCE."

MATURITY SCHEDULE

See page 2

LEGALITY . . . The 2018 Certificates are offered for delivery when, as and if issued and received by the Initial Purchaser and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas (see Appendix C, "Form of Bond Counsel's Opinion").

DELIVERY . . . It is expected that the 2018 Certificates will be available for delivery through The Depository Trust Company on August 23, 2018 (the "Delivery Date").

MATURITY SCHEDULE **CUSIP Prefix [1]: 486206**

Amount	2-15 Maturity	Interest Rate	Initial Yield	CUSIP Suffix [1]	Amount	2-15 Maturity	Interest Rate	Initial Yield	CUSIP Suffix [1]
$ 55,000	2019	5.000%	1.650%	LF0	$ 115,000	2024	5.000%	2.350%	LL7
55,000	2020	5.000%	1.850%	LG8	125,000	2025	5.000%	2.500%	LM5
55,000	2021	5.000%	2.000%	LH6	125,000	2026	4.000%	2.600%	LN3
60,000	2022	5.000%	2.100%	LJ2	130,000	2027	3.000%	2.700%	LP8
115,000	2023	5.000%	2.200%	LK9	140,000	2028	3.000%	2.850% [2]	LQ6

$290,000 3.000% Term Bonds Due February 15, 2030 Priced To Yield 3.130%[2]– Cusip #486206LS2
$310,000 3.000% Term Bonds Due February 15, 2032 Priced To Yield 3.184%[2]– Cusip #486206LU7
$340,000 3.250% Term Bonds Due February 15, 2034 Priced To Yield 3.417%– Cusip #486206LW3
$360,000 3.375% Term Bonds Due February 15, 2036 Priced To Yield 3.529%– Cusip #486206LY9
$395,000 3.500% Term Bonds Due February 15, 2038 Priced To Yield 3.644%– Cusip #486206MA0

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(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City, the Financial Advisor or the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.
(2) Yield to first call date of February 15, 2027.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem the 2018 Certificates having stated maturities on and after February 15, 2028, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2027, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date of redemption (see "The 2018 Certificates – Optional Redemption").

Mandatory Sinking Fund Redemption . . . The Certificates maturing on February 15 in the years 2030, 2032, 2034, 2036, and 2038 (the “Term Certificates”) are subject to mandatory sinking fund redemption as described herein (see “The 2018 Certificates – Mandatory Sinking Fund Redemption”).

This Official Statement, which includes the cover page, Schedule and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation, or sale.

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE" and "Appendix D - SPECIMEN MUNICIPAL BOND INSURANCE POLICY".

No dealer, broker, salesperson, or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the representation, promise, or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "Other Information - Continuing Disclosure of Information" for a description of the City's undertaking to provide certain information on a continuing basis.

NEITHER THE CITY, ITS FINANCIAL ADVISOR, NOR THE INITIAL PURCHASER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS PRELIMINARY OFFICAL STATEMENT REGARDING DTC OR ITS BOOK-ENTRY-ONLY SYSTEM OR THE BOND INSURER AND ITS MUNICIPAL BOND INSURANCE POLICY DESCRIBED HEREIN UNDER THE HEADING "BOND INSURANCE", AS SUCH INFORMATION WAS PROVIDED BY DTC AND THE BOND INSURER, RESPECTIVELY.

The cover page of this Official Statement contains certain information for general reference only and is not intended as a summary of the offering. Investors should read the entire Official Statement, including all schedules and appendices hereto, to obtain information essential to making an informed investment decision.

The agreements of the City and others related to the 2018 Certificates are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the 2018 Certificates is to be construed as constituting an agreement with a purchaser of the 2018 Certificates. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL SCHEDULES AND APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

This Official Statement contains "Forward-Looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, and achievements to be different from future results, performance, and achievements expressed or implied by such forward-looking statements. Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.

The 2018 Certificates are exempt from registration with the Securities and Exchange Commission and consequently have not been registered therewith. The registration, qualification, or exemption of the 2018 Certificates in accordance with applicable securities law provisions of the jurisdiction in which the 2018 Certificates have been registered, qualified or exempted should not be regarded as a recommendation thereof.

TABLE OF CONTENTS

The cover page hereof, this page, the appendices included herein and any addenda, supplement or amendment hereto, are part of the Preliminary Official Statement.

OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the 2018 Certificates to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Preliminary Official Statement.

THE CITY	The City of Kaufman, Texas (the "City") is a political subdivision and municipal corporation of the State, located in Kaufman County, Texas. The City covers approximately 9.2 square miles (see "Introduction - Description of the City").
THE 2018 CERTIFICATES	The $2,670,000 Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2018 (the "2018 Certificates"), are issued as serial certificates maturing February 15, 2019 through February 15, 2028 and as Term Certificates maturing on February 15 in each of the years 2030, 2032, 2034, 2036, and 2038 (see "The 2018 Certificates - Description of the 2018 Certificates").
PAYMENT OF INTEREST	Interest on the 2018 Certificates accrues from the Delivery Date, and is payable February 15, 2019, and each August 15 and February 15 thereafter until maturity or prior redemption (see "The 2018 Certificates - Description of the 2018 Certificates").
AUTHORITY FOR ISSUANCE	The 2018 Certificates are issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and the Ordinance passed by the City Council of the City (see "The 2018 Certificates - Authority for Issuance").
SECURITY FOR THE 2018 CERTIFICATES	The 2018 Certificates constitute direct obligations of the City, payable from a combination of (i) an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge (not to exceed $1,000) of the Surplus Revenues of the City's Waterworks and Sewer System (the "System") as provided in the Ordinance (see "The 2018 Certificates - Security and Source of Payment").
REDEMPTION	The City reserves the right, at its option, to redeem the 2018 Certificates having stated maturities on and after February 15, 2028, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2027, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date of redemption. (see "The 2018 Certificates –Optional Redemption"). Additionally, the Term Certificates are subject to mandatory sinking fund redemption as more particularly described herein (see "The 2018 Certificates – Mandatory Sinking Fund Redemption").
TAX MATTERS	In the opinion of Bond Counsel, the interest on the 2018 Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption "Tax Matters" herein.
USE OF PROCEEDS	Proceeds from the sale of the 2018 Certificates will be used for (i) additions, extensions and improvements to the City's waterworks and sewer system, (ii) municipal drainage improvements, and (iii) paying all or a portion of costs of issuance and legal, fiscal and engineering fees in connection with these projects.
RATINGS	The 2018 Certificates are rated "A+" by Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business ("S&P") without regard to credit enhancement. The City also has debt rated by Moody's Investors Service, Inc. ("Moody's").
BOOK-ENTRY-ONLY SYSTEM	The definitive 2018 Certificates will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the 2018 Certificates may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the 2018 Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the 2018 Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the 2018 Certificates (see "The 2018 Certificates - Book-Entry-Only System").
PAYMENT RECORD	The City has never defaulted in payment of its general obligation tax debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Funded Tax Debt	Per Capita Funded Tax Debt	Ratio Funded Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections
2014	6,640 [(1)]	$ 274,606,710	$ 41,356	$ 13,756,000	$ 2,072	5.01%	99.48%
2015	6,610 [(1)]	282,369,877	42,719	12,947,000	1,959	4.59%	98.76%
2016	6,922 [(1)]	296,046,435	42,769	20,040,000	2,895	6.77%	98.05%
2017	6,957 [(1)]	300,752,888	43,230	33,350,000	4,794	11.09%	96.06%
2018	7,181 [(2)]	345,111,875	48,059	34,630,237 [(4)]	4,822	10.03%	91.60% [(5)]

(1) Source: U.S. Census.
(2) Source: North Central Texas Council of Governments.
(3) Source: City Officials.
(4) Projected; includes the 2018 Certificates.
(5) Collections through partial year only, through April 1, 2018.

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
Jeff Jordan Mayor	6 Years	May, 2019	Communications/TV Executive
Patty Patterson Mayor Pro Tem	5 Years	May, 2020	Small Business Owner and Retired Teacher
Carol Aga Councilmember	2 Years	May, 2019	Retired
Jeff Council Councilmember	12 Years	May, 2020	Self-Employed
Charles Gillenwater Councilmember	11 Years	May, 2020	Risk Manager
Barry Ratcliffe Councilmember	12 Years	May, 2020	Business Manager
Matt Phillips Councilmember	1 1/2 Years	May, 2019	HR Director

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service with City	Total Governmental Service
Michael T. Slye	City Manager	3 Years	24 Years
Mike Holder	Assistant City Manager	5 Months	30 Years
Mary Wennerstrom	Director of Finance	3 Years	5 Years

CONSULTANTS AND ADVISORS

Auditors .... Yeldell, Wilson, Wood and Reeze PC
Ennis, Texas

Bond Counsel .... McCall, Parkhurst & Horton, L.L.P.
Dallas, Texas

Financial Advisors .... Hilltop Securities Inc.
Fort Worth, Texas

For additional information regarding the City, please contact:

Michael T. Slye City Manager City of Kaufman 209 South Washington Kaufman, Texas 75142 (972) 932-2216	or	Mary Wennerstrom Director of Finance City of Kaufman 209 South Washington Kaufman, Texas 75142 (972) 932-2216	or	Nick Bulaich David K. Medanich HilltopSecurities Inc. 777 Main Street, Suite 1200 Fort Worth, Texas 76102 (817) 332-9710

OFFICIAL STATEMENT

RELATING TO

$2,670,000
COMBINATION TAX AND LIMITED SURPLUS REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2018

INTRODUCTION

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of $2,670,000 City of Kaufman, Texas, Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2018 (the "2018 Certificates"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance (hereinafter defined) to be adopted on the date of sale of the 2018 Certificates, except as otherwise indicated herein.

There follow in this Official Statement descriptions of the 2018 Certificates and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, Hilltop Securities Inc. ("HilltopSecurities"), Fort Worth, Texas.

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1853, and first adopted its Home Rule Charter on November 3, 1987. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The term of office is two years with the terms of the Mayor and three of the Councilmembers' terms expiring in odd-numbered years and the other terms of the three Councilmembers expiring in even-numbered years. The City Manager is the chief administrative officer for the City. The 2010 Census population for the City was 6,703, while the estimated 2018 population is 7,181. The City covers approximately 9.2 square miles.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the 2018 Certificates will be used for (i) additions, extensions and improvements to the City's waterworks and sewer system, (ii) municipal drainage improvements, and (iii) paying all or a portion of costs of issuance and legal, fiscal and engineering fees in connection with these projects.

THE 2018 CERTIFICATES

DESCRIPTION OF THE 2018 CERTIFICATES . . . The 2018 Certificates are dated July 15, 2018, and mature on February 15 in each of the years and in the amounts shown on page 2 hereof. Interest on the 2018 Certificates will accrue from the Delivery Date and will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year, commencing February 15, 2019 until maturity. The definitive 2018 Certificates will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the 2018 Certificates will be made to the owners thereof.** Principal of and interest on the 2018 Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the 2018 Certificates. See "Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The 2018 Certificates are being issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and the ordinance adopted by the City Council authorizing the issuance of the 2018 Certificates (the “Ordinance”).

SECURITY AND SOURCE OF PAYMENT . . . The principal of and interest on the 2018 Certificates are payable from a direct and continuing ad valorem tax levied by the City, within the limits prescribed by law, upon all taxable property in the City. Additionally, the 2018 Certificates are payable from a limited pledge (not to exceed $1,000) of surplus net revenues of the City's waterworks and sewer system remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve and other requirements in connection with all of the City's revenue obligations (now or hereafter outstanding) that are payable from all or part of said revenues, all as provided in the Ordinance.

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City adopts the constitutionally authorized maximum tax rate of $2.50 per $100 Taxable Assessed Valuation.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem the 2018 Certificates having stated maturities on and after February 15, 2028, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2027, or any date thereafter, at a price equal to the principal amount called for redemption plus accrued interest to the fixe date for redemption. If less than all of the 2018 Certificates are to be redeemed, the City shall determine the maturity or maturities and amounts thereof to be redeemed. If less than all the 2018 Certificates of any maturity are to be redeemed, the City shall direct the Paying Agent/Registrar (or DTC while the 2018 Certificates are in Book-Entry-Only form) to call by lot the 2018 Certificates, or portions thereof, within such maturity or maturities and in such principal amounts for redemption. If an 2018 Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such 2018 Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

With respect to any optional redemption of the 2018 Certificates, unless certain prerequisites to such redemption required by the Ordinance have been met and money sufficient to pay the principal of and premium, if any, and interest on the 2018 Certificates to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the City, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the City will not redeem such 2018 Certificates, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that such 2018 Certificates have not been redeemed.

MANDATORY SINKING FUND REDEMPTION . . . The Certificates maturing on February 15, 2030, February 15, 2032, February 15, 2034, February 15, 2036 and February 15, 2038 (the "Term Certificates"), are subject to mandatory redemption in part prior to their schedule maturities, and will be redeemed by the City at a redemption price equal to the principal amounts thereof, plus accrued interest to the dates of redemption, on the dates and in the principal amounts as follows:

Term Certificates Due February 15, 2030		Term Certificates Due February 15, 2032		Term Certificates Due February 15, 2034	
Redemption Date	Principal Amount	Redemption Date	Principal Amount	Redemption Date	Principal Amount
February 15, 2029	$ 140,000	February 15, 2031	$ 150,000	February 15, 2033	$ 165,000
February 15, 2030*	150,000	February 15, 2032*	160,000	February 15, 2034*	175,000

Term Certificates Due February 15, 2036		Term Certificates Due February 15, 2038	
Redemption Date	Principal Amount	Redemption Date	Principal Amount
February 15, 2035	$ 175,000	February 15, 2037	$ 195,000
February 15, 2036*	185,000	February 15, 2038*	200,000

The particular Term Certificates to be redeemed shall be chosen by the Paying Agent/Registrar at random by lot or other customary method; provided, however, that the principal amount of the Term Certificates for the stated maturity required to be redeemed on a mandatory redemption date; may be reduced at the option of the City, by the principal amount of Term Certificates of like stated maturity which, at least 50 days prior to the mandatory redemption date, (1) shall have been acquired by the City at the price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and cancelled by the Paying Agent/Registrar at the request of the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase or (3) shall have been redeemed pursuant to the optional redemption provision set forth above an not heretofore credited against a mandatory redemption requirement.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the 2018 Certificates, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the 2018 Certificates to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND ALL OTHER CONDITIONS TO REDEMPTION SATISFIED, THE 2018 CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY OBLIGATION OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH OBLIGATION OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DEFEASANCE . . . The Ordinance provides for the defeasance of the 2018 Certificates when payment of the principal of and premium, if any, on 2018 Certificates, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment or (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the 2018 Certificates, and thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased 2018 Certificates, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The Ordinance provides that "Defeasance Securities" means any securities and 2018 Certificates now or hereafter authorized by State law that are eligible to discharge obligations such as the 2018 Certificates. Current State law permits defeasance with the following types of securities: (1) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (2) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (3) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such 2018 Certificates shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Obligations have been made as described above, all rights of the City to initiate proceedings to call the Obligations for redemption or take any other action amending the terms of the 2018 Certificates are extinguished; provided, however, that the right to call the 2018 Certificates for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the 2018 Certificates for redemption; (ii) gives notice of the reservation of that right to the owners of the 2018 Certificates immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorize.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the 2018 Certificates. Because the Ordinance does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the 2018 Certificates is to be transferred and how the principal of, premium, if any, and interest on the 2018 Certificates are to be paid to and accredited by DTC while the 2018 Certificates are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City, Financial Advisor and the Initial Purchaser believes the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

The City and the Initial Purchaser cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the 2018 Certificates, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the 2018 Certificates), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the 2018 Certificates. The 2018 Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the 2018 Certificates in the aggregate principal amount thereof and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of 2018 Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2018 Certificates on DTC's records. The ownership interest of each actual purchaser of each Obligation ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interest in the 2018 Certificates are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2018 Certificates, except in the event that use of the book-entry system for the 2018 Certificates is discontinued.

To facilitate subsequent transfers, all 2018 Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2018 Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2018 Certificates; DTC's records reflect only the identity of the Direct Participant to whose account such 2018 Certificates are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2018 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2018 Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Obligation documents. For example, Beneficial Owners of 2018 Certificates may wish to ascertain that the nominee holding the 2018 Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2018 Certificates within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the 2018 Certificates unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2018 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the 2018 Certificates will be made to DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to DTC is the responsibility of the City, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2018 Certificates at any time by giving reasonable notice to the City and the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Obligation certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2018 Certificates will be printed and delivered.

Use of Certain Terms in Other Sections of this Official Statement. In reading this Official Statement it should be understood that while the 2018 Certificates are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the 2018 Certificates, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Financial Advisor or the Initial Purchaser. **Effect of Termination of Book-Entry-Only System** In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed 2018 Certificates will be issued to the holders and the 2018 Certificates will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "The 2018 Certificates - Transfer, Exchange and Registration" below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the 2018 Certificates are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the 2018 Certificates. If the City replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the 2018 Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the 2018 Certificates by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

PAYMENT . . . Interest on the 2018 Certificates shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (defined below), and such interest shall be paid (i) by check sent United States Mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the 2018 Certificates will be paid to the registered owner at their stated maturity upon presentation to the designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the 2018 Certificates shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/ Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

Initially, the definitive 2018 Certificates will be registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. No physical delivery of the 2018 Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the 2018 Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the 2018 Certificates. See "THE 2018 CERTIFICATES - Book-entry-only System" herein.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed certificates will be delivered to the registered owners of the 2018 Certificates and thereafter the 2018 Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. 2018 Certificates may be assigned by the execution of an assignment form on the respective 2018 Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New 2018 Certificates will be delivered by the Paying Agent/Registrar, in lieu of the 2018 Certificates being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new 2018 Certificates issued in an exchange or transfer of 2018 Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Obligations to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New 2018 Certificates registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the 2018 Certificates surrendered for exchange or transfer. See "The 2018 Certificates - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the 2018 Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Obligation (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Obligation called for redemption, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of an Obligation.

REPLACEMENT CERTIFICATES . . . If any Obligation is mutilated, destroyed, stolen or lost, a new Obligation in the same principal amount as the Obligation so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Obligation, such Obligation will be delivered only upon surrender and cancellation of such mutilated Obligation. In the case of any Obligation issued in lieu of an substitution for a Obligation which has been destroyed, stolen or lost, such Obligation will be delivered only (a) upon filing with the City and the Paying Agent/Registrar a certificate to the effect that such Obligation has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the City and the Paying Agent/Registrar with indemnity satisfactory to them. The person requesting the authentication and delivery of an Obligation must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the 2018 Certificates on any interest payment date means the close of business on the last business day of the month preceding such interest payment date.

In the event of a non payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of an Obligation appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

AMENDMENTS . . .In the Ordinance, the City has reserved the right to amend the Ordinance without the consent of any holder for the purpose of amending or supplementing the Ordinance to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, 9ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of the Ordinance that do not materially adversely affect the interests of the holders, (iv) qualify the Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make sure other provisions in regard to matters or questions arising under the Ordinance that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the City, do not materially adversely affect the interest of the holders. The Ordinance further provides that the holders of the 2018 Certificates, as applicable, aggregating in principal amount 51% of the outstanding 2018 Certificates, as the case may be, shall have the right from time to time to approve any amendment not described above to the Ordinance if it is deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the holders in original principal amount of the then outstanding 2018 Certificates so affected, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding 2018 Certificates; (ii) reducing the rate of interest borne by any of the outstanding 2018 Certificates; (iii) reducing the amount of the of the principal of, or redemption premium, if any, payable on any outstanding 2018 Certificates; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding 2018 Certificates, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the 2018 Certificates necessary for consent to such amendment. Reference is made to the Ordinance for further provisions relating to the amendment thereof.

CERTIFICATEHOLDERS' REMEDIES . . . The Ordinance establishes specific events of default with respect to the 2018 Certificates. If the City defaults in the payment of the principal of or interest on the 2018 Certificates when due or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners thereof, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner of a 2018 Certificate is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the 2018 Certificate or Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the 2018 Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the owners of the 2018 Certificate upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. On April 1, 2016, the Texas Supreme Court ruled in Wasson Interest, Ltds, V. City of Jacksonville, 489 S.W.3d 427 (Tex. 2016) that sovereign immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. If sovereign immunity is determined by a court to exist, then the Texas Supreme Court has ruled in Tooke v. City of Mexia 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, owners of 2018 Certificates may not be able to bring such a suit against the City for breach of the 2018 Certificates or the Ordinance covenants in the absence of City action. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the Registered Owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the 2018 Certificates. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or 2018 Certificateholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the 2018 Certificates are qualified with respect to governmental immunity and to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

Initially, the only Registered Owner of the 2018 Certificates will be The Depository Trust Company. See "The 2018 Certificates - Book-Entry-Only System" herein for a description of the duties of DTC with regard to ownership of the 2018 Certificates.

BOND INSURANCE

The following information has been supplied by Build America Mutual Assurance Company for inclusion in this Official Statement. No representation is made by the City, the Initial Purchaser or the Financial Advisory as to the accuracy or completeness of the information.

The following information is not complete and reference is made to Appendix D for a specimen of the municipal bond insurance policy of BAM.

BOND INSURANCE POLICY . . . Concurrently with the issuance of the 2018 Certificates, Build America Mutual Assurance Company ("BAM") will issue its Municipal Bond Insurance Policy for the 2018 Certificates (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the 2018 Certificates when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

BUILD AMERICA MUTUAL ASSURANCE COMPANY. . . BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the 2018 Certificates, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the 2018 Certificates. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the 2018 Certificates on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the 2018 Certificates, nor does it guarantee that the rating on the 2018 Certificates will not be revised or withdrawn.

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2018 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were $518.3 million, $97.4 million and $420.9 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the 2018 Certificates or the advisability of investing in the 2018 Certificates. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE".

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at buildamerica.com/creditinsights/. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those 2018 Certificates. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by

CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at buildamerica.com/obligor/. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such 2018 Certificates. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the 2018 Certificates, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the 2018 Certificates. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the 2018 Certificates, whether at the initial offering or otherwise.

BOND INSURANCE RISK FACTORS

GENERAL . . . In the event of default of the scheduled payment of principal of or interest on the 2018 Certificates when all or a portion thereof becomes due, any owner of the 2018 Certificates shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the 2018 Certificates by the City which is recovered from a 2018 Certificate owner as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by BAM at such time and in such amounts as would have been due absent such prepayment by the City (unless BAM chooses to pay such amounts at an earlier date).

Payment of principal of and interest on the 2018 Certificates is not subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see “THE 2018 CERTIFICATES – Certificateholders’ Remedies” herein).

In the event BAM is unable to make payment of principal and interest as such payments become due under the Policy, the 2018 Certificates are payable solely from the sources of funds pledged to the payment of the 2018 Certificates (see “THE 2018 CERTIFICATES – Security and Source of Payment”). In the event BAM becomes obligated to make payments with respect to the 2018 Certificates, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the 2018 Certificates.

The long-term ratings on the 2018 Certificates will be dependent in part on the financial strength of BAM and its claims-paying ability. BAM’s financial strength and claims-paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of BAM and of the ratings on the 2018 Certificates insured by BAM will not be subject to downgrade and such event could adversely affect the market price of the marketability (liquidity) for the 2018 Certificates.

The obligations of BAM under a Policy are general obligations of BAM and in an event of default by BAM, the remedies available may be limited by applicable bankruptcy law.

None of the City, the Financial Advisory or the Initial Purchaser has made independent investigation into the claim-paying ability of any potential Insurer and no assurance or representation regarding the financial strength or projected financial strength of any potential Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay the principal of and interest on the 2018 Certificates and the claims paying ability of BAM, particularly over the life of the investment. See “BOND INSURANCE” herein for further information provided by BAM and the Policy, which includes further instructions for obtaining current financial information concerning BAM.

INSURER’S RIGHTS UNDER THE ORDINANCE . . . Notwithstanding the discussion of holder rights under the caption “THE 2018 CERTIFICATES – Certificateholders’ Remedies,” so long as the insurance policy of BAM that secures the 2018 Certificates is in force, and BAM is not in default under the Policy, upon the occurrence and continuation of a default by the City BAM shall become the owner of 2018 Certificates for which BAM has made payment and shall have right to receipt of payment of principal of or interest on such 2018 Certificates and shall be fully subrogated to the rights of the owners of such 2018 Certificates.

CLAIMS-PAYING ABILITY AND FINANCIAL STRENGTH OF MUNICIPAL BOND INSURERS . . . Moody’s Investor Services, Inc., Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, and Fitch Ratings (collectively, the “Rating Agencies”) have, since 2008 downgraded and/or placed a negative watch the claim-paying ability and financial strength of most providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers is possible. In addition, recent events in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of such bond insurers, including any bond insurer of the 2018 Certificates. Thus, when making an investment decision, potential investors should carefully consider the ability of any such bond insurer to pay principal and interest on the 2018 Certificates and the claims paying ability of any such bond insurer, particularly over the life of the 2018 Certificates.

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the City is the responsibility of the Kaufman Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Texas Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed the lesser of (1) the market value of the property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value in the preceding tax year, plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to the V.T.C.A., Property Tax Code, (the "Property Tax Code") for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value and the exemption of certain personal property from ad valorem taxation.

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than $3,000 of the market value.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of $5,000.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

Under Article VIII and State law, the governing body of a county, municipality or junior college district, may freeze the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older to the amount of taxes imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, the total amount of taxes imposed on such homestead cannot be increased except for improvements (excluding repairs or improvements required to comply with governmental requirements) and such freeze is transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse. If improvements (other than repairs or improvements required to comply with governmental requirements) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax rate limitation may not be repealed or rescinded.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from $5,000 to a maximum of $12,000; provided, however, that a disabled veteran who receives from the from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. In addition, effective January 1, 2012, and subject to certain conditions, surviving spouses of a deceased veteran who had received a disability rating of 100% will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Sections 1-d and 1-d-1.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Notwithstanding such exemption, counties, school districts, junior college districts and cities may tax such tangible personal property provided official action to tax the same was taken before April 1, 1990. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by a provision in the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in- transit during the following tax year. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property.

A city may utilize tax increment financing ("TIF"), pursuant to the Tax Increment Financing Act, Texas Tax Code, Chapter 311, to encourage development and redevelopment within a designated reinvestment zone. Taxes collected from increases in valuation above the base value (the "captured appraised value") by each taxing unit that levies ad valorem taxes on real property in the reinvestment zone may be used to pay costs of infrastructure or other public improvements in the reinvestment zone and to supplement or act as a catalyst for private development in the defined area of the reinvestment zone. The tax increment base value for a taxing unit is the total appraised value of all real property taxable by the taxing unit and located in the reinvestment zone as of January 1 of the year in which the city created the reinvestment zone. Each taxing unit can choose to dedicate all, any portion or none of its taxes collected from the captured appraised value to the costs of improvements in the reinvestment zone. The amount of a taxing unit's tax increment for a year is the amount of property taxes levied by the taxing unit for that year on the captured appraised value of real property taxable by the taxing unit and located in the reinvestment zone, multiplied by the taxing unit's percentage level of participation.

The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

The City is authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grants of public funds for economic development purposes, however no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City. The City may contract with the federal government, the State, another political subdivision, a nonprofit organization or any other entity, including private entities, for the administration of such a program.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . Section 26.05 of the Property Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. Furthermore, Section 26.05 provides the City Council may not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held on the proposed tax rate following a notice of such public hearings (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

PROPERTY ASSESSMENT AND TAX PAYMENT . . . Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

PENALTIES AND INTEREST . . . Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, a taxing unit may contract with an attorney for the collection of delinquent taxes and the amount of compensation as set forth in such contract may provide for a fee up to 20% of the amount of delinquent tax, penalty, and interest collected. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF TAX CODE . . . The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of $5,000.

The City has not granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of $5,000.

See Table 1 for a listing of the amounts of the exemptions described above.

The City has not adopted the tax freeze for citizens who are disabled or are 65 years of age or older, which became a local option and subject to local referendum on January 1, 2004.

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt.

The City does not tax nonbusiness personal property; and the Kaufman County Tax Office collects taxes for the City.

The City does not permit split payments, and discounts are allowed.

The City does tax freeport property.

The City does not tax goods-in-transit.

The City does collect the additional one-half cent sales tax for reduction of ad valorem taxes.

The City has adopted a tax abatement policy.

TAX ABATEMENT POLICY . . . The City has established a tax abatement program to encourage economic development.

The City Council adopted guidelines and criteria for granting abatements in reinvestment zones created within the City. In order to be considered for tax abatement, a project must meet several criteria pertaining to job creation and property value enhancement. The tax abatement incentive is based on the following formula:

$3 million +	400%
$2 million - $2,999,999	300%
$500,000 - $1,999,999	200%

The above chart reflects the maximum tax incentive to be eligible for over a period not to exceed five (5) years. No applicant may take a percentage greater than 100% in any given year. The qualified applicant my choose to take the 200% abatement over a two (2) year period at 100% each year, or may extend it to 50% each year for four (4) years. The same method would apply to the 300% and 400% abatement. Abatements may be granted for terms from two to five (2-5) years but may be extended to the limits as specified by state law. Since 1992, the City has abated taxes for two (2) companies and these abatements have expired. As of the date of this Official Statement the City has one existing abatement agreement.

TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2017/18 Market Valuation Established by Kaufman County Appraisal District		$367,426,588
Less Exemptions/Reductions at 100% Market Value:		
Residence Homestead Exemption Over 65	$ 5,265,335	
Disabled Persons/Veterans Exemptions	1,033,828	
Agricultural Land Use Reductions	11,302,150	
Homestead Cap Loss	3,162,694	
Pollution Control	570	
Tax Abatement Exemptions	1,550,136	22,314,713
2017/18 Taxable Assessed Valuation		$345,111,875
City Funded Debt Payable from Ad Valorem Taxes (as of 6-1-18)		
General Obligation Debt	$32,500,000	
2018 Certificates	2,670,000	
Funded Debt Payable from Ad Valorem Taxes		$ 35,170,000
Less Self-Supporting Debt: (1)		
Waterworks and Sewer System General Obligation Debt		8,200,000 (2)
Pass-Through Toll General Obligation Debt		7,557,756 (3)
Stormwater System General Obligation Debt		1,240,000 (2)
General Purpose Funded Debt Payable from Ad Valorem Taxes		$ 18,172,244 (4)
Interest and Sinking Fund as of 5-1-18		$ 798,731
Ratio Total Funded Debt to Taxable Assessed Valuation		10.19%
Ratio Net Funded Debt to Taxable Assessed Valuation		5.27%

2018 Estimated Population - 7,181
Per Capita Taxable Assessed Valuation - $48,059
Per Capita Total Funded Debt - $4,898
Per Capita Net Funded Debt - $2,531

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(1) General obligation debt in the amounts shown for which repayment is provided from revenues of the respective revenue systems. The amount of self-supporting debt is based on the percentages of revenue support as shown in Table 10. It is the City's current policy to provide these payments from respective system revenues; this policy is subject to change in the future. In the event the City changes it policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.
(2) Includes a portion of the 2018 Certificates. Preliminary, subject to change.
(3) In connection with the issuance of the City's Pass-Through Toll Revenue and Limited Tax Bonds, Series 2014 (the "Series 2014 Bonds"), the City entered into a "Pass-Through Agreement for Payment of Pass-Through Tolls by the Department" (the "Agreement") with the Texas Department of Transportation (the "Department"), pursuant to which the Department will make, subject to certain conditions, "Pass-Through Payments". Such payments are pledged to the payment of the Series 2014 Bonds. The Agreement does not obligate the Department to pay amounts sufficient to pay debt service on the Series 2014 Bonds. The amount of payments made by the Department will be determined by the terms of the Agreement without regard to the actual debt service payable on the Series 2014 Bonds. If Pass-Through Payments are insufficient to pay the debt service on the Series 2014 Bonds, the City is obligated to levy ad valorem taxes, or provide other funds, to the pay the Series 2014 Bonds. See Table 8 - "Pro-Forma General Obligation Debt Service Requirements", footnote 7.
(4) The City obtained a loan from the State Infrastructure Bank ("SIB") in the amount of $4,000,000 for improvements to State Highway 34. See Table 8 - "Pro-Forma General Obligation Debt Service Requirements".

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2018		2017		2016	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 155,746,917	42.39%	$ 134,480,690	41.99%	$ 129,823,671	41.46%
Real, Residential, Multi-Family	12,640,196	3.44%	11,549,590	3.61%	11,569,590	3.69%
Real, Vacant Lots Tracts	11,110,590	3.02%	10,794,870	3.37%	11,623,527	3.71%
Real, Acreage (Land Only)	11,639,600	3.17%	11,735,220	3.66%	10,998,260	3.51%
Real, Farm and Ranch Improvements	5,884,040	1.60%	5,705,520	1.78%	5,872,500	1.88%
Real, Commercial and Industrial	89,071,075	24.24%	83,713,637	26.14%	80,231,117	25.62%
Real, Inventory	284,000	0.08%	370,000	0.12%	472,000	0.15%
Real and Intangible Personal, Utilities	6,868,620	1.87%	7,877,360	2.46%	7,277,840	2.32%
Tangible Personal, Business	71,298,000	19.40%	51,776,100	16.17%	52,928,180	16.90%
Tangible Personal, Other	207,240	0.06%	216,500	0.07%	295,590	0.09%
Special Inventory	2,676,310	0.73%	2,074,320	0.65%	2,047,970	0.65%
Total Appraised Value Before Exemptions	$ 367,426,588	100.00%	$ 320,293,807	100.00%	$ 313,140,245	100.00%
Adjustments	-		-		-	
Less: Total Exemption/Reductions	(22,314,713)		(19,540,919)		(17,093,810)	
Taxable Assessed Value	$ 345,111,875		$ 300,752,888		$ 296,046,435	

	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2015		2014	
Category	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 131,471,286	43.71%	$ 132,771,148	45.41%
Real, Residential, Multi-Family	11,558,510	3.84%	12,746,480	4.36%
Real, Vacant Lots Tracts	11,869,757	3.95%	11,345,127	3.88%
Real, Acreage (Land Only)	12,486,720	4.15%	11,835,280	4.05%
Real, Farm and Ranch Improvements	6,062,230	2.02%	6,134,000	2.10%
Real, Commercial and Industrial	77,107,540	25.63%	69,465,500	23.76%
Real, Inventory	470,000	0.16%	470,000	0.16%
Real and Tangible Personal, Utilities	7,227,010	2.40%	7,363,290	2.52%
Tangible Personal, Business	40,464,050	13.45%	37,864,310	12.95%
Tangible Personal, Other	303,030	0.10%	312,010	0.11%
Special Inventory	1,779,790	0.59%	2,067,860	0.71%
Total Appraised Value Before Exemptions	$ 300,799,923	100.00%	$ 292,375,005	100.00%
Adjustments	-		-	
Less: Total Exemption/Reductions	(18,430,046)		(17,768,295)	
Taxable Assessed Value	$ 282,369,877		$ 274,606,710	

NOTE: Valuations shown are certified taxable assessed values reported by the Kaufman County Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2014	6,640 (1)	$ 274,606,710	$ 41,356	$ 13,756,000	5.01%	$2,072
2015	6,610 (1)	282,369,877	42,719	12,947,000	4.59%	1,959
2016	6,922 (1)	296,046,435	42,769	20,040,000	6.77%	2,895
2017	6,957 (1)	300,752,888	43,230	33,350,000	11.09%	4,794
2018	7,181 (2)	345,111,875	48,059	34,630,237 (3)	10.03%	4,822

(1) Source: North Texas Council of Governments.
(2) Estimate provided by City staff.
(3) Projected; includes the 2018 Certificates.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	Distribution: General Fund	Distribution: Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2014	$ 0.652490	$ 0.576978	$ 0.075512	$ 1,769,535	98.45%	99.48%
2015	0.702490	0.497689	0.204801	1,983,620	96.10%	98.76%
2016	0.702490	0.507350	0.195140	2,081,279	98.05%	98.05%
2017	0.777260	0.507350	0.269910	2,337,861	96.06%	96.06%
2018	0.899370	0.507350	0.392020	3,093,452	91.60% (1)	91.60% (1)

(1) Collections for part year only, through April 1, 2018.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2017/18 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
ITS Equipment Leasing & Maintenance LLC	Equipment Leasing	$ 15,906,780	4.61%
Abox Paperboard	Paperboard Packaging Manufacturer	11,334,690	3.28%
Wal-Mart Real Estate Business Trust	Real Estate	9,292,920	2.69%
Falcon Steel Inc.	Steel Manufacturing	6,913,500	2.00%
Wal-Mart Stores 01-265	Grocery	5,896,630	1.71%
BWR Apartments LP	Apartment Complex	4,819,880	1.40%
Brookshire Grocery Company	Grocery	4,320,180	1.25%
Kolder Inc.	Household Durables Manufacturing	3,197,430	0.93%
Tables Manufacturing Inc.	Aluminum Products Manufacturing	3,175,442	0.92%
Centro NP Holdings 12 Spe LLC	Retail Business Center	3,112,840	0.90%
		$ 67,970,292	19.70%

GENERAL OBLIGATION DEBT LIMITATION . . . No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "The Bonds and Certificates - Tax Rate Limitation").

TABLE 6 - TAX ADEQUACY[1]

2018 Net Principal and Interest Requirements	$ 1,115,552
$0.3299 Tax Rate at 98% Collection Produces	$ 1,115,754
Average Annual Principal and Interest Requirements, 2018 - 2057	$ 611,860
$0.1810 Tax Rate at 98% Collection Produces	$ 612,159
Maximum Principal and Interest Requirements, 2022	$ 1,128,623
$0.3338 Tax Rate at 98% Collection Produces	$ 1,128,944

(1) Does not include the 2018 Certificates as the City intends to pay them from revenue sources other than taxes (see "Table 8 - Pro-Forma General Obligation Debt Service Requirements" and "Table 10 – Computation of Self-Supporting Debt").

TABLE 7 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax debt ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional tax debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional tax debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

Taxing Jurisdiction	2017/18 Taxable Assessed Value	2017/18 Tax Rate	Total Funded Debt	Estimated % Applicable	City's Overlapping Funded Debt 5/1/2018	Authorized But Unissued Debt As of 5/1/2018
City of Kaufman	$ 345,111,875	$0.70249	$ 18,172,244 [1]	100.00%	$ 18,172,244	$ -
Kaufman County	8,035,975,395	0.58870	62,054,016	4.29%	2,662,117	-
Kaufman Independent School District	624,372,398	1.55000	74,182,871	48.79%	36,193,823	-
Total Direct and Overlapping Funded Debt					$ 57,028,184	
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation					16.52%	
Per Capita Direct and Overlapping Funded Debt					$ 7,942	

(1) Excludes self-supporting debt (including the 2018 Certificates which are anticipated to be 100% self-supporting).

TABLE 8 - PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 9/30	Outstanding Debt (1) Principal	Outstanding Debt (1) Interest	The 2018 Certificates (2) Principal	The 2018 Certificates (2) Interest	Total Debt Service Requirements	Plus: State Infrastructure Bank (SIB) Loan Requirements	Less: Water and Sewer Self-Supporting Requirements (3)	Less: Tx-Dot Self-Supporting Debt Requirements (4)	Less: Storm Water Self-Supporting Debt Requirements (3)	Total Outstanding Debt Service	% of Principal Retired
2018	$ 1,160,000	$ 866,171	$ -	$ -	$ 2,026,171	$ 364,763	$ 592,038	$ 683,344	$ -	$ 1,115,552	
2019	1,215,000	802,396	55,000	93,592	2,165,988	364,763	656,928	683,344	89,189	1,101,290	
2020	1,255,000	775,180	55,000	93,000	2,178,180	364,763	643,006	683,344	87,969	1,128,623	
2021	1,290,000	744,649	55,000	90,250	2,179,899	364,763	657,069	683,344	85,719	1,118,531	
2022	1,310,000	712,012	60,000	87,375	2,169,387	364,763	640,844	683,344	88,344	1,121,618	20.48%
2023	1,140,000	680,747	115,000	83,000	2,018,747	364,763	639,056	683,344	85,844	975,266	
2024	1,180,000	649,576	115,000	77,250	2,021,826	364,763	646,406	683,344	83,344	973,495	
2025	1,210,000	616,634	125,000	71,250	2,022,884	364,763	648,331	683,344	85,719	970,253	
2026	1,160,000	584,082	125,000	65,625	1,934,707	364,763	551,196	683,344	83,244	981,686	
2027	1,210,000	549,805	130,000	61,175	1,950,980	364,763	569,106	683,344	81,319	981,974	41.13%
2028	1,120,000	514,249	140,000	57,125	1,831,374	364,763	437,576	683,344	84,594	990,622	
2029	1,135,000	478,930	140,000	52,925	1,806,855	364,763	427,676	683,344	82,794	977,804	
2030	1,190,000	442,070	150,000	48,575	1,830,645	364,763	437,426	683,344	85,919	988,719	
2031	1,220,000	403,357	150,000	44,075	1,817,432	364,763	431,751	683,344	83,969	983,131	
2032	1,175,000	361,119	160,000	39,425	1,735,544	364,763	445,621	683,344	86,944	884,398	62.01%
2033	1,350,000	317,940	165,000	34,344	1,867,284	233,464	448,763	683,344	84,756	883,885	
2034	1,535,000	268,401	175,000	28,819	2,007,220		451,279	683,344	87,400	785,197	
2035	1,535,000	222,930	175,000	23,022	1,955,952		448,298	683,344	84,916	739,394	
2036	1,630,000	168,611	185,000	16,947	2,000,558		454,786	683,344	87,300	775,128	
2037	705,000	109,967	195,000	10,413	1,020,379		115,950		89,463	814,967	86.28%
2038	165,000	96,025	200,000	3,500	464,525		117,013		86,488	261,025	
2039	165,000	92,107		-	257,107		-			257,107	
2040	170,000	88,365		-	258,365		-			258,365	
2041	175,000	84,033	-	-	259,033		-			259,033	
2042	180,000	79,818	-	-	259,818		-			259,818	89.63%
2043	185,000	75,484	-	-	260,484		-			260,484	
2044	190,000	71,219	-	-	261,219		-			261,219	
2045	195,000	66,460	-	-	261,460		-			261,460	
2046	195,000	61,828	-	-	256,828		-			256,828	
2047	200,000	57,138	-	-	257,138		-			257,138	92.69%
2048	205,000	52,466	-	-	257,466		-			257,466	
2049	210,000	47,402	-	-	257,402		-			257,402	
2050	215,000	42,355	-	-	257,355		-			257,355	
2051	220,000	37,190	-	-	257,190		-			257,190	
2052	230,000	31,927	-	-	261,927		-			261,927	96.11%
2053	235,000	26,326	-	-	261,326		-			261,326	
2054	240,000	20,686	-	-	260,686		-			260,686	
2055	245,000	14,927	-	-	259,927		-			259,927	
2056	250,000	9,066	-	-	259,066		-			259,066	
2057	255,000	3,053	-	-	258,053		-			258,053	100.00%
	$ 28,850,000	$ 11,326,701	$ 2,670,000	$ 1,081,685	43,928,387	$ 5,704,907	$ 10,460,119	$ 12,983,536	$ 1,715,230	$ 24,474,410	

(1) "Outstanding Debt" does not include lease/purchase obligations, includes self-supporting debt. Preliminary, subject to change.
(2) Average life of the issue - 11.873 years. Interest on the 2018 Certificates has been calculated at the rates shown on page 2 hereof.
(3) Includes a portion of the 2018 Certificates.
(4) Minimum payments pursuant to the Agreement. The City received its first payment for the Department on August 14, 2017 in the amount of $683,344. Receipt of payments by the City, and the timing of such receipts, is subject to the terms and provisions of the Pass-Through Agreement and the City's compliance therewith.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Supported Debt Service Requirements, Fiscal Year Ending 9-30-18		$ 1,115,552
Interest and Sinking Fund Balance, 9-30-17	$ 309,048	
Budgeted Interest and Sinking Fund Tax Levy	1,289,761	
Budgeted Miscellaneous Income	-	1,598,809
Estimated Balance, 9-30-18		$ 483,257

TABLE 10 - COMPUTATION OF SELF-SUPPORTING DEBT

Water and Sewer System Revenue Supported Debt

Net Revenue from Waterworks and Sewer System, Fiscal Year Ended 9-30-17	$1,118,678
System General Obligation Bond Requirements, 2018 Fiscal Year	592,038
Balance	$ 526,641
Percentage of System General Obligation Bonds Self Supporting	100.00%

Tx-Dot Pass Through Toll Supported Debt

Pass Through Revenues Received from Tx-Dot, Fiscal Year Ended 9-30-17	$ 683,344
Pass Through General Obligation Bond Requirements, 2018 Fiscal Year	573,806
Balance	$ 109,538
Percentage of System General Obligation Bonds Self Supporting	100.00%

TABLE 11 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

The City has no authorized but unissued general obligation bonds as of September 30, 2017.

ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT . . . The City anticipates issuing additional tax-supported debt in the amount of $4 million over a 12 month period.

TABLE 12 – OTHER OBLIGATIONS

Capital Leases

The City is currently purchasing equipment under lease purchase agreements. The interest on the leases ranges from 2.49 – 4.8%.

Annual debt service requirements to maturity are as follows:

Year Ending	Governmental Activities		Business-type Activities	
30-Sep	Principal	Interest	Principal	Interest
2018	$ 112,726	$ 10,596	$ 33,585	$ 3,996
2019	77,635	7,507	34,541	3,038
2020	79,686	5,456	35,527	2,054
2021	81,796	3,346	36,538	1,044
2022	47,395	1,180	-	-
	$ 399,238	$ 28,085	$ 140,191	$ 10,132

PENSION FUND . . . The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMR's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at *www.tmrs.com*.

All eligible employees of the City are required to participate in TMRS.

TMRS provided retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-finance monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

	Plan Provisions
Employee deposit rate	7.0%
Municipal Current matching ratio	2 to 1
Updated service credits:	
Rate (%)	100 T
Year effective	2008R
Increase benefits to retirees:	
Rate (%) (1)	70.0%
Year effective	2017
Military service credit effective date	10-01
Vesting	5 Years
Service retirement eligibilities	5 yrs/age 60, 20 yrs/any age
Restricted prior service credit effective date	6-97
Supplemental death benefits	
Employees	Yes
Retirees	Yes
Statutory maximum (%)	Removed

(1) For years prior to 1982, the rate is the actual percentage in annuities. For 1882 and later, the rate is the percentage of the change in the CPI-U since retirement date, granted to each annuitant as an increase of the original annuity.
T – Includes Transfer Credits
R – Annually Repeating. Ordinance automatically renews effective January 1 of each successive year.

As of the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receving Benefits	40
Inactive Employees Entitled to But Not Yet Receving Benefits	52
Active Employees	60
	152

Contributions . . . The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earning, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 10.15% and 9.01% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were $285,723, and were equal to the required contributions.

Net Pension Liability . . . The City’s Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date

Actuarial assumptions:

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by a factor of 100%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected return, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without and adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

Discount Rate . . . The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2015	$11,489,565	$10,225,358	$1,264,207
Changes for the Year:	-	-	-
Service Cost	499,848	-	499,848
Interest	730,703	-	730,703
Change of benefit terms	(691,158)	-	(691,158)
Difference between expected and actual experience	96,318	-	96,318
Contributions - employer	-	311,064	(311,064)
Contributions - employee	-	214,527	(214,527)
Net Investment income	-	691,376	(691,376)
Benefit payments, including refunds of employee contributions	(446,215)	(446,215)	-
Administrative expense	-	(7,805)	7,805
Other changes	-	(420)	420
Net Changes	$ 189,496	$ 762,527	$ (573,031)
Balance at 12/31/2016	$11,679,061	$10,987,885	$ 691,176

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculate using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's Net Pension Liability	$2,210,548	$ 691,176	$ (572,774)

For additional information regarding the City's Pension Fund, See Note 3 in the City's 2017 CAFR - located in Appendix B of this Official Statement.

FINANCIAL INFORMATION

TABLE 13 - CHANGES IN NET ASSETS

	Fiscal Year Ended September 30,				
Revenues:	2017	2016	2015	2014	2013
Program Revenues					
Charges for Services	$ 780,767	$ 751,328	$ 759,216	$ 784,004	$ 812,968
Operating Grants and Contributions	48,395	32,720	7,768,258	5,127	39,601
Capital Grants and Contributions	1,401,852	742,919	1,689,518	11,179,536	401,341
General Revenues					
Ad Valorem Taxes	2,370,809	2,114,025	1,990,159	1,807,255	1,743,664
Sales Taxes	2,070,430	2,022,782	1,842,273	1,594,892	1,351,409
Other Taxes and Fees	464,983	445,102	424,893	454,605	407,302
Investment Earnings	5,214	6,170	17,360	12,446	4,107
Gain (Loss) Disposal of Capital Assets	-	20,487	-	-	-
Miscellaneous	115,475	91,801	54,397	56,364	33,149
Total Revenues	$ 7,257,925	$ 6,227,334	$ 14,546,074	$ 15,894,229	$ 4,793,541
Expenses:					
General Government	$ 889,202	$ 795,430	$ 890,648	$ 1,038,186	$ 752,655
Public Safety	2,369,520	1,965,831	2,183,520	2,173,310	2,185,030
Streets	324,759	336,920	435,194	373,393	296,982
Cultural and Recreational	503,986	466,463	322,998	379,839	297,587
Public Works	998,534	5,152,645	11,557,777	3,721,180	617,511
Interest on Long-term Debt	645,093	571,583	620,218	167,236	44,454
Total Expenses	$ 5,731,094	$ 9,288,872	$ 16,010,355	$ 7,853,144	$ 4,194,219
Increase in Net Assets Before Transfers	$ 1,526,831	$ (3,061,538)	$ (1,464,281)	$ 8,041,085	$ 599,322
Transfers	23,129	3,000	(284,430)	25,338	18,902
Increase in Net Assets	$ 1,549,960	$ (3,058,538)	$ (1,748,711)	$ 8,066,423	$ 618,224
Net Assets - October 1	3,223,107	6,281,645	8,030,356 (1)	5,889,744	5,271,520
Net Assets - September 30	$ 4,773,067	$ 3,223,107	$ 6,281,645	$ 13,956,167	$ 5,889,744

(1) Restated.

TABLE 13-A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
Revenues	2017	2016	2015	2014	2013
Taxes	$ 4,026,699	$ 3,973,611	$ 3,618,121	$ 3,628,894	$ 3,279,021
Licenses and Permits	288,218	265,178	171,781	108,529	122,192
Fines and Forfeitures	170,229	206,068	244,823	194,524	157,355
Charges for Services	297,488	266,819	252,951	267,302	260,414
Intergovernmental	17,611	128,513	2,694,352	-	-
Other	83,981	58,212	28,787	40,936	41,086
Total Revenues	$ 4,884,226	$ 4,898,401	$ 7,010,815	$ 4,240,185	$ 3,860,068
Expenditures					
General Government	$ 883,554	$ 847,136	$ 891,665	$ 838,269	$ 731,811
Public Safety - Fire and Police	2,484,328	2,306,868	2,257,926	2,422,081	1,953,094
Public Works	676,340	545,116	527,763	764,826	503,324
Cultural and Recreation Park	353,984	2,036,212	297,773	291,870	206,829
Public Services and Operations	318,491	360,652	286,338	313,315	270,178
Debt Service	462,339	471,085	481,066	-	-
Total Expenditures	$ 5,179,036	$ 6,567,069	$ 4,742,531	$ 4,630,361	$ 3,665,236
Excess (Deficiency) of Revenues Over Expenditures	$ (294,810)	$ (1,668,668)	$ 2,268,284	$ (390,176)	$ 194,832
Other Financing Sources (Uses)					
Budgeted Transfers In	$ 322,407	$ 1,805,395	$ -	$ 56,890	$ -
Budgeted Transfers Out	(252,287)	(100,000)	(2,908,374)	-	(310,423)
Sale of Capital Assets	3,451	50	29,951	35,750	-
Total Other Financing Sources (Uses)	$ 73,571	$ 1,705,445	$ (2,878,423)	$ 92,640	$ (310,423)
Net Change in Fund Balances	$ (221,239)	$ 36,777	$ (610,139)	$ (297,536)	$ (115,591)
Beginning Fund Balance	3,735,641	3,698,864 [1]	1,558,200	1,855,736	1,971,328
Ending Fund Balance	$ 3,514,402	$ 3,735,641	$ 948,061	$ 1,558,200	$ 1,855,737

(1) Restated.

TABLE 14 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Texas, Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the 2018 Certificates. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly.

Fiscal Year Ended 9/30	City's 1% Sales Tax	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2014	$ 1,063,262	60.09%	$ 0.3872	$ 160
2015	1,228,096	61.91%	0.4349	186
2016	1,336,375	64.21%	0.4514	193
2017	1,370,039	58.60%	0.4555	197
2018 (1)	780,958	25.25%	2.2629	109

In 1995 the voters of the City approved the imposition of an additional sales and use tax of one-half of one percent (½% of 1%) for economic development. The sales tax for economic development is collected solely for the benefit of Kaufman Economic Development Corporation (the "Corporation"), and may be pledged to secure payment of sales tax revenue bonds issued by the Corporation. In May 1993 the voters of the City approved the imposition of an additional one-half of one percent (½ of 1%) for property tax reduction. Collection for the additional tax went into effect on July 1, 1993.

Fiscal Year Ended 9/30	4A Sales Tax Collected	City's Sales Tax Collected (2)
2014	$ 531,631	$ 531,631
2015	614,048	614,048
2016	668,188	668,188
2017	685,020	685,020
2018 (1)	390,479	390,479

The sales tax breakdown for the City is as follows:

Property Tax Relief	0.50¢
Economic and Community Development	0.50¢
City Sales & Use Tax	1.00¢
State Sales & Use Tax	6.25¢
Total	8.25¢

(1) Collections for part year only, through February 28, 2018.
(2) Includes Sales Tax & Use Tax and Property Tax Relief.

FINANCIAL POLICIES

Basis of Accounting . . . The City's accounting records of the governmental fund revenues and expenditures are recognized on the modified accrual basis. Revenues are recognized in the accounting period in which they are available and measurable. Expenditures are recognized in the accounting period in which the fund liability occurred, if measurable, except for unmatured interest on general long-term debt.

Proprietary Fund revenues and expenses are recognized on the full accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the accounting period in which they are incurred.

Fund Balances . . . It is the City's policy regarding the General Fund and Enterprise Funds that working capital resources should be maintained at a minimum of 10% of the Fund's operating expenditure budget. The City maintains its various debt service funds in accordance with the covenants of the respective ordinances that authorized the issuance of such debt.

Budgetary Procedures . . . The City Charter establishes the fiscal year as the twelve-month period beginning each October 1. Each year between May and July, the City Manager analyzes, and then after review, submits a budget of estimated revenues and expenditures to the City Council. Subsequently, the City Council will hold work sessions to discuss and amend the budget to coincide with their direction of the City. Various public hearings may be held to comply with applicable law. The City Council will adopt a budget prior to September 30. If the Council fails to adopt a budget then the budget presented to the Council by the City Manager becomes the adopted budget.

During the fiscal year, budgetary control is maintained by the monthly review of departmental appropriation balances. Actual operations are compared to the amounts set forth in the budget. Departmental appropriations that have not been expended lapse at the end of the fiscal year. Therefore, funds that were budgeted and not used by the departments during the fiscal year are not available for their use unless appropriated in the ensuing fiscal year's budget.

INVESTMENTS

The City invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the City Council. Both state law and the City's investment policies are subject to change.

LEGAL INVESTMENTS . . Under State law, the City is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the City in compliance with the PFIA, (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the City's account, (iii) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States, and (iv) the City appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the City through a broker or institution that has a main office or branch office in the State and selected by the City in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the City appoints, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission and complies with Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are registered and regulated by the Securities and Exchange Commission that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the City is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; and (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent, or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party designated by the City, (iv) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State, and (v) the agreement to lend securities has a term of one year or less.

The City is specifically prohibited from investing in (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

INVESTMENT POLICIES . . . Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest during the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

ADDITIONAL PROVISIONS . . . Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

TABLE 15 - CURRENT INVESTMENTS

As of April 1, 2018, the City's investable funds were invested as shown below.

Description	Percent	Amount
Checking	89.02%	$ 12,750,244
Certificates of Deposit	8.31%	1,190,889
Investment Pools	2.66%	381,465
	100.00%	$ 14,322,598

No funds of the City are invested in derivative securities, i.e., securities whose rate of return is determined by reference to another instrument, index, or commodity.

TAX MATTERS

OPINION . . . On the date of initial delivery of the 2018 Certificates, McCall, Parkhurst & Horton L.L.P., Bond Counsel to the Issuer, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the 2018 Certificates for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the 2018 Certificates will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel to the Issuer will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the 2018 Certificates. See Appendix C -- Form of Opinion of Bond Counsel.

In rendering its opinion, Bond Counsel to the Issuer will rely upon (a) the Issuer's federal tax certificate and (b) covenants of the Issuer with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the 2018 Certificates and certain other matters. Failure of the Issuer to comply with these representations or covenants could cause the interest on the 2018 Certificates to become includable in gross income retroactively to the date of issuance of the 2018 Certificates.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the 2018 Certificates in order for interest on the 2018 Certificates to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the 2018 Certificates to be included in gross income retroactively to the date of issuance of the 2018 Certificates. The opinion of Bond Counsel to the Issuer is conditioned on compliance by the Issuer with the covenants and the requirements described in the preceding paragraph, and Bond Counsel to the Issuer has not been retained to monitor compliance with these requirements subsequent to the issuance of the 2018 Certificates.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the 2018 Certificates.

A ruling was not sought from the Internal Revenue Service by the Issuer with respect to the 2018 Certificates or the facilities financed or refinanced with the proceeds of the 2018 Certificates. Bond Counsel’s opinion represents its legal judgment based upon its review of Existing Law and the representations of the Issuer that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the 2018 Certificates, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Issuer as the taxpayer and the 2018 Certificateholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT . . . The initial public offering price to be paid for one or more maturities of the 2018 Certificates may be less than the maturity amount thereof or one or more periods for the payment of interest on the 2018 Certificates may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Certificates"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Certificate, and (ii) the initial offering price to the public of such Original Issue Discount Certificate would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the 2018 Certificates less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Certificate in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Certificate equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Certificate prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Certificate was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Certificate is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the 2018 Certificates and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Certificate for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Certificate.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Certificates which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Certificates should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Certificates and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Certificates.

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . . The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the 2018 Certificates. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM RECENTLY ENACTED LEGISLATION OR THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE 2018 CERTIFICATES.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the 2018 Certificates, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the 2018 Certificates, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount certificates" to the extent such gain does not exceed the accrued market discount of such 2018 Certificates; although for this purpose, a de minimis amount of market discount is ignored. A "market discount certificate" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date
.

STATE, LOCAL AND FOREIGN TAXES . . . Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the 2018 Certificates under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

INFORMATION REPORTING AND BACKUP WITHHOLDING . . . Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the 2018 Certificates will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

FUTURE AND PROPOSED LEGISLATION . . . Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the 2018 Certificates under Federal or state law and could affect the market price or marketability of the 2018 Certificates. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the 2018 Certificates should consult their own tax advisors regarding the foregoing matters.

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . . Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer<s taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than $10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by section 265(b) of the Code, section 291 of the Code provides that the allowable deduction to a "bank," as defined in section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The Issuer has designated the 2018 Certificates as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the Issuer has covenanted to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the 2018 Certificates as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds $10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of $10,000,000 is disregarded; however the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the $10,000,000 limitation and the 2018 Certificates would not be "qualified tax-exempt obligations**

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreements for the benefit of the holders and beneficial owners of the 2018 Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the 2018 Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data to the MSRB on an annual basis in an electronic format that is prescribed by the MSRB and available via the Electronic Municipal Market Access System ("EMMA") at www.emma.msrb.org. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 15. The City will update and provide this information within six months after the end of each fiscal year ending in and after 2018. The City will additionally provide audited financial statements when and if available, and in any event, within 12 months after the end of each fiscal year ending in or after 2018. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City will file unaudited financial statements within such 12 month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated quantitative financial information and operating data by March 31 in each year, unless the City changes its fiscal year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) as described in the preceding paragraph. If the City changes its fiscal year, it will notify the MSRB of the change.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's EMMA Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

NOTICE OF CERTAIN EVENTS . . . The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the 2018 Certificates to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the 2018 Certificates, or other material events affecting the tax status of the 2018 Certificates; (7) modifications to rights of holders of the 2018 Certificates, if material; (8) 2018 Certificates calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the 2018 Certificates , if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports".

For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notices of certain events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell 2018 Certificates at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of 2018 Certificates may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell 2018 Certificates in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding 2018 Certificates consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the 2018 Certificates. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling 2018 Certificates in the primary offering of the 2018 Certificates. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the City believes it has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

OTHER INFORMATION

RATINGS

The 2018 Certificates are rated "A+" by Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business ("S&P") without regard to credit enhancement. Additionally, the 2018 Certificates are expected to be rated AA by S&P by virtue of a Municipal Bond Insurance policy to be issued by Build America Mutual upon delivery of the 2018 Certificates to the Initial Purchasers. The City also has debt rated by Moody's Investors Service, Inc. ("Moody's"). An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the view of such organization and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds (see "Bond Insurance - Claims-Paying Ability and Financial Strength of Municipal Bond Insurers" and "- Bond Insurance Risk Factors" for a description of the current state of the financial guaranty insurance industry and information regarding downgrading and negative changes to the ratings outlook of multiple financial guaranty insurers).

LITIGATION

It is the opinion of the City Attorney and City Staff that there is no pending or, to its knowledge, threatened litigation or other proceeding against the City that would have a material adverse financial impact upon the City, its operations or its financial statements.

REGISTRATION AND QUALIFICATION OF 2018 CERTIFICATES FOR SALE

The sale of the 2018 Certificates has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the 2018 Certificates have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the 2018 Certificates been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the 2018 Certificates under the securities laws of any jurisdiction in which the 2018 Certificates may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the 2018 Certificates shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the 2018 Certificates are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the 2018 Certificates by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the 2018 Certificates be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "Other Information - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the 2018 Certificates are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The 2018 Certificates are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the 2018 Certificates are legal investments for various institutions in those states.

Legal Opinions and No-Litigation Certificate

The City will furnish complete transcripts of proceedings had incident to the authorization and issuance of the 2018 Certificates, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial 2018 Certificate and to the effect that the 2018 Certificates are valid and legally binding obligations of the City, and based upon examination of such transcripts of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the 2018 Certificates will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the 2018 Certificates, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said 2018 Certificates will also be furnished. Though it may represent the Financial Advisor and the Initial Purchaser from time to time in matters unrelated to the issuance of the 2018 Certificates, Bond Counsel has been engaged by and only represents the City in the issuance of the 2018 Certificates. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the 2018 Certificates in the Official Statement to verify that such description conforms to the provisions of the Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the 2018 Certificates is contingent on the sale and delivery of the 2018 Certificates. The legal opinion of Bond Counsel will accompany the 2018 Certificates deposited with DTC or will be printed on the 2018 Certificates in the event of the discontinuance of the Book-Entry-Only System.

Authenticity of Financial Data and Other Information

The financial data and other information contained herein have been obtained from City records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and the Ordinance contained in this Official Statement are made subject to all of the provisions of such statutes, documents and the Ordinance. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

Financial Advisor

Hilltop Securities Inc. ("HilltopSecurities") is employed as Financial Advisor to the City in connection with the issuance of the 2018 Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the 2018 Certificates is contingent upon the issuance and delivery of the 2018 Certificates. HilltopSecurities, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the 2018 Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the City has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Forward-Looking Statements Disclaimer

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. The City's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

INITIAL PURCHASER OF THE 2018 CERTIFICATES

After requesting competitive bids for the 2018 Certificates, the City accepted the bid of SAMCO Capital Markets, Inc. (the "Initial Purchaser") to purchase the 2018 Certificates at the interest rates shown on page 3 of the Official Statement at a price of par plus a cash premium (if any) of $8,381.49. The Initial Purchaser can give no assurance that any trading market will be developed for the 2018 Certificates after their sale by the City to the Initial Purchaser. The City has no control over the price at which the 2018 Certificates are subsequently sold and the initial yields at which the 2018 Certificates will be priced and reoffered will be established by and will be the sole responsibility of the Initial Purchaser.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the 2018 Certificates , the City will furnish a certificate, executed by an authorized representative of the City, acting in such officer's representative capacity, to the effect that to the best of such person's knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in the Official Statement, and any addenda, supplement, or amendment thereto, on the date of the Official Statement, on the date of sale of the 2018 Certificates, and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, the Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading in any material respect; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in the Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last audited financial statements of the City.

The Ordinance authorizing the issuance of the 2018 Certificates approved the form and content of this Official Statement, and any addenda, supplement, or amendment thereto, and authorized its further use in the reoffering of the 2018 Certificates by the Initial Purchaser.

JEFF JORDAN
Mayor
City of Kaufman, Texas

ATTEST:

REGINA FARRIS
City Secretary

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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LOCATION AND POPULATION . . . The City of Kaufman is the county seat and a farm to market center located 28 miles southeast of Dallas on U.S. Highway 175.

COUNTY CHARACTERISTICS . . . Kaufman County is a northeast Texas county traversed by Interstate Highway 20, U.S. Highways 80 and 175 and State Highways 34, 243, and 274. The economy is based on manufacturing and agriculture. The Texas Almanac designates cattle, hogs, poultry and horses as principal sources of agricultural income. Minerals produced in the county include oil and stone. Cedar Creek Lake offers excellent camping and boating facilities. Lake Ray Hubbard and the surrounding area include marinas and leisure homes.

EDUCATION . . . Kaufman Independent School District is rated class 3A. The City has one early childhood center, one primary school, one elementary schools, one intermediate school, one junior high school, one alternative learning center, and one high school. Kaufman High school provides vocational training, business information training, agricultural science and technology, agribusiness, and agricultural mechanics. There are two private schools and Trinity Valley Community College with campuses in Kaufman (Health-Science Center), Terrell, Athens, and Palestine.

LABOR FORCE STATISTICS

	March	Average Annual				
	2018	2017	2016	2015	2014	2013
Kaufman County						
Civilian Labor Force	60,983	59,437	57,813	55,017	53,886	52,641
Employed	58,743	57,346	55,625	52,780	51,141	49,329
Unemployed	2,240	2,091	2,188	2,237	2,745	3,312
Percent Unemployed	3.67%	3.52%	3.78%	4.07%	5.09%	6.29%
State of Texas						
Civilian Labor Force	13,834,783	13,538,385	13,317,176	13,074,570	13,111,548	12,904,629
Employed	13,265,346	12,960,595	12,702,122	12,493,197	12,447,551	12,104,092
Unemployed	569,437	577,790	615,054	581,373	663,997	800,537
Percent Unemployed	4.12%	4.27%	4.62%	4.45%	5.06%	6.20%

Source: Texas Employment Commission.

INDUSTRY AND BUSINESS . . . The largest employers are as follows:

Company	Product	Estimated Number of Employees
Kaufman County	Government	554
Kaufman ISD	School district	505
Walmart	Retail	300
Numo Manufacturing	Promotional Product Manufacturer	208
Texas Health Presbyterian Hospital	Hospital	200
Advanced Tabco	Stanless Steel Fabrication	180
Enertech	Energy Conservation	175
Trinity Valley Electric Co-Op	Utility	157
Falcon Steel	Steel Manufacturing	143
Abox Packaging	Paperboard Packaging Manufacturer	140

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APPENDIX B

EXCERPTS FROM THE

CITY OF KAUFMAN, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2017

The information contained in this Appendix consists of excerpts from the City of Kaufman, Texas Annual Financial Report for the Year Ended September 30, 2017, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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YELDELL, WILSON, WOOD & REEVE, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
Greer Yeldell, CPA | Glen Wilson, CPA | Tracie Wood, CPA | Joyce Reeve, CPA
Glenda Valek, CPA | Caitlyn Keller, CPA

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council of
City of Kaufman, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Kaufman, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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P: 972.878.2611 | www.ywcocpa.com | F: 972.878.2220

Honorable Mayor and City Council
City of Kaufman, Texas
Page Two

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Kaufman, Texas, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and net pension liability information on pages 15-24 and 74-76 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kaufman, Texas' basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Honorable Mayor and City Council
City of Kaufman, Texas
Page Three

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Yeldell, Wilson, Wood & Reeve, P.C.

Yeldell, Wilson, Wood & Reeve, P.C.
Certified Public Accountants

Ennis, Texas
March 14, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As management of the City of Kaufman, Texas, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the letter of transmittal, which can be found on pages 2-7 of this report.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $15,933,868 (*net position*).

- The City's total net position increased by $1,803,962.

- As of the close of the current fiscal year, the City's governmental funds reported combined fund balances of $24,357,427, an increase of $6,528,625 in comparison with the prior year. Approximately 6.26% of this amount ($1,523,945) is available for spending at the City's discretion (*unassigned fund balance*).

- At the end of the current fiscal year, unassigned fund balance for the general fund was $1,523,945, or approximately 29.4% of the total general fund expenditures.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents financial information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows.* Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, public services and operations, and parks and recreation. The business-type activities of the City include utility and drainage operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate economic development corporation for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 26-27 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The City maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Capital Improvements and Debt Service Fund, which are considered to be major funds. Data from the other seven governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 28-31 of this report.

Proprietary Funds. The City maintains one type of proprietary fund. The *enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses the enterprise funds to account for its utility and drainage operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Utility fund, which is considered to be a major fund of the City. Data from the other enterprise fund is combined into a single aggregated presentation.

The basic proprietary fund financial statements can be found on pages 32-34 of this report.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35-72 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's Schedule of Revenues and Expenditures - Budget and Actual - General Fund, the Schedule of Changes in Net Pension Liability and Related Ratios and the Schedule of Contributions. Required supplementary information can be found on pages 74-76 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pensions. Combining fund statements and schedules can be found on pages 79-84 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows by $15,933,868, at the close of the most recent fiscal year.

CITY OF KAUFMAN'S NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	$ 26,248,082	$ 18,512,147	$ 7,268,126	$ 7,255,398	$ 33,516,208	$ 25,767,545
Capital assets	12,421,531	9,135,612	11,597,800	11,773,322	24,019,331	20,908,934
Total assets	38,669,613	27,647,759	18,865,926	19,028,720	57,535,539	46,676,479
Total deferred outflows of resources	618,217	752,379	362,555	428,181	980,772	1,180,560
Long term liabilities	32,420,015	23,823,463	7,657,490	8,099,469	40,077,505	31,922,932
Other liabilities	1,974,315	1,149,375	392,775	411,405	2,367,090	1,560,780
Total liabilities	34,394,330	24,972,838	8,050,265	8,510,874	42,444,595	33,483,712
Total deferred inflows of resources	120,433	204,193	17,415	39,228	137,848	243,421
Net position:						
Net investment in capital assets	5,037,515	4,190,990	9,247,153	9,156,309	14,284,668	13,347,299
Restricted	1,646,430	267,446	111,201	270,622	1,757,631	538,068
Unrestricted (deficit)	(1,910,878)	(1,235,329)	1,802,447	1,479,868	(108,431)	244,539
Total net position	$ 4,773,067	$ 3,223,107	$ 11,160,801	$ 10,906,799	$ 15,933,868	$ 14,129,906

Certain reclassifications have been made to the prior year data to conform with the current year presentation.

By far, the largest portion of the City's net position (89.6%) reflects its investment in capital assets (e.g., land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (11.03%) represents resources that are subject to external restrictions on how they may be used.

The City's total net investment in capital assets increased as the additions from capital outlays and work-in-progress exceeded depreciation and retirements.

The City's overall net position increased $1,803,962 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

CITY OF KAUFMAN'S CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	$ 780,767	$ 751,328	$ 4,083,978	$ 4,084,209	$ 4,864,745	$ 4,835,537
Operating grants and contributions	48,395	32,720	20,191	-	68,586	32,720
Capital grants and contributions	1,401,852	742,919	33,813	177,372	1,435,665	920,291
General revenues:						
Property taxes	2,370,809	2,114,025	-	-	2,370,809	2,114,025
Sales taxes	2,070,430	2,022,782	-	-	2,070,430	2,022,782
Franchise taxes	425,130	403,640	-	-	425,130	403,640
Hotel occupancy taxes	31,825	33,420	-	-	31,825	33,420
Alcoholic beverage taxes	8,028	8,042	-	-	8,028	8,042
Investment earnings	5,214	6,170	11,985	11,120	17,199	17,290
Gain on sale of capital assets	-	20,487	14,679	-	14,679	20,487
Miscellaneous	115,475	91,801	851	-	116,326	91,801
Total revenues	7,257,925	6,227,334	4,165,497	4,272,701	11,423,422	10,500,035
Expenses:						
General government	889,202	795,430	-	-	889,202	795,430
Public safety	2,369,520	1,965,831	-	-	2,369,520	1,965,831
Public works	998,534	5,152,645	-	-	998,534	5,152,645
Public services and operations	324,759	336,920	-	-	324,759	336,920
Parks and recreation	503,986	466,463	-	-	503,986	466,463
Interest on long-term debt	645,093	571,583	-	-	645,093	571,583
Utility	-	-	3,816,367	3,767,304	3,816,367	3,767,304
Drainage	-	-	71,999	118,100	71,999	118,100
Total expenses	5,731,094	9,288,872	3,888,366	3,885,404	9,619,460	13,174,276
Increase in net position before transfers	1,526,831	(3,061,538)	277,131	387,297	1,803,962	(2,674,241)
Transfers	23,129	3,000	(23,129)	(3,000)	-	-
Change in net position	1,549,960	(3,058,538)	254,002	384,297	1,803,962	(2,674,241)
Net position - beginning	3,223,107	6,281,645	10,906,799	10,522,502	14,129,906	16,804,147
Net position - ending	$ 4,773,067	$ 3,223,107	$ 11,160,801	$ 10,906,799	$ 15,933,868	$ 14,129,906

Governmental Activities. During the current fiscal year, net position for governmental activities increased $1,549,960 from the prior fiscal year for an ending balance of $4,773,067. This is mainly due to an increase in revenues driven primarily by an increase in capital grants and contributions and property taxes. The completion of the State Highway 34 re-alignment project in 2016 also contributed to the decrease in public works expenses of $4,154,111.

Business-type Activities. For the City's business-type activities, the results for the current fiscal year resulted in a net increase in net position to an ending balance of $11,160,801. The total increase in net position for business-type activities (water, sewer, and drainage operations) was $254,002 or 2.33% of prior fiscal year. Total expenses before transfers increased by 1.01%.

Financial Analysis of Governmental Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Council.

At September 30, 2017, the City's governmental funds reported combined fund balances of $24,357,427, an increase of $6,528,625 in comparison with the prior year. Approximately 6.3% of this amount ($1,523,945) constitutes *unassigned fund balance,* which is available for spending at the City's discretion. The remainder of the fund balance is either *nonspendable* or *restricted* to indicate that it is 1) not in spendable form ($1,889,981), 2) restricted for particular purposes ($20,843,025), or 3) assigned for particular purposes ($100,476).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was $1,523,945, while total fund balance increased to $3,514,402. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 29.4 percent of total general fund expenditures, while total fund balance represents approximately 67.9 percent of that same amount.

The fund balance of the City's general fund decreased by $221,239 during the current fiscal year. Property tax decreased approximately 1% while sales tax and franchise tax increased approximately 2% and 5% respectively. Total expenditures decreased 21% over 2016 with the parks and recreation department contributing to most of the decrease. The decrease is the result of the purchase of a building and the construction of park improvements in the prior year.

The capital improvements fund, a major fund, had a $7,134,955 increase in fund balance during the current fiscal year which increased total fund balance to $8,832,052.

The debt service fund, a major fund, had a decrease in fund balance during the current year of $536,254 to bring the year end fund balance to $10,631,964.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Utility fund at the end of the year was $1,537,929. The total increase in net position was $128,240. Operating revenues fell in 2017 by $66,949 (1.69%). Operating expenses increased by 5.70% while interest and fiscal charges decreased $115,545 as the result of debt issuances during the prior year.

General Fund Budgetary Highlights

Original budget compared to final budget. During the year, the City increased total estimated revenues by $162,414. Total expenditures and transfers out were increased by $103,929. The majority of this budget amendment was to increase intergovernmental revenues and transfers out to the grants fund.

Final budget compared to actual results. General budgeted revenues of $5,998,931 exceeded actual revenues of $5,938,044 by $60,887.

Budgeted general fund expenditures of $5,355,170 exceeded actual expenditures of $5,130,832. This $224,338 positive variance in expenditures was achieved through a series of expenditure restrictions imposed during the year.

Capital Assets and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2017, amounts to $24,019,331 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure. The total increase in capital assets for the current fiscal year was approximately 14.88%.

City of Kaufman's Capital Assets
(net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	$ 953,524	$ 953,524	$ 549,375	$ 549,375	$ 1,502,899	$ 1,502,899
Construction in progress	3,892,548	862,661	212,700	-	4,105,248	862,661
Buildings	2,344,698	2,520,165	2,316,567	2,533,915	4,661,265	5,054,080
Improvements	-	-	7,788,841	8,164,761	7,788,841	8,164,761
Machinery and equipment	1,102,911	1,145,942	730,317	525,271	1,833,228	1,671,213
Infrastructure	4,127,850	3,653,320	-	-	4,127,850	3,653,320
Total	$ 12,421,531	$ 9,135,612	$ 11,597,800	$ 11,773,322	$ 24,019,331	$ 20,908,934

Major capital asset events during the current fiscal year included the following:

- Construction in progress additions of approximately $3,590,000 consisting of street improvements, water and sewer improvements, and a new municipal facility.

- Improvements of approximately $188,000 for water and sewer lines and $780,000 for street improvements which included $347,000 of completed construction in progress.

- Machinery and equipment additions of approximately $490,000.

Additional information on the City's capital assets can be found in Note 2.G on pages 49-50 of this report.

Long-term Debt. At the end of the current fiscal year, the City had total long-term debt outstanding of $39,117,071.

City of Kaufman's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Certificates of obligation	$ 2,145,000	$ 2,225,000	$ 5,395,000	$ 5,600,000	$ 7,540,000	$ 7,825,000
General obligations bonds	11,689,000	2,050,200	1,366,000	1,544,800	13,055,000	3,595,000
Pass through bonds	7,950,000	8,255,000	-	-	7,950,000	8,255,000
Notes payable	8,644,726	8,917,995	-	-	8,644,726	8,917,995
Tax anticipation note	305,000	365,000	-	-	305,000	365,000
Development agreements payable	678,000	1,017,000	404,916	404,916	1,082,916	1,421,916
Capital leases	399,238	340,761	140,191	16,302	539,429	357,063
Total	$ 31,810,964	$ 23,170,956	$ 7,306,107	$ 7,566,018	$ 39,117,071	$ 30,736,974

The City's total debt increased by $8,380,097 (27.3 percent) during the current fiscal year. The reason for the increase is primarily the result of new debt issues exceeding scheduled debt payments.

The City's General Obligation and Combination Tax and Revenue Certificates of Obligation ratings are listed below.

	Moody's	Standard's & Poor's
General Obligation Bonds	A3	AA
Certificates of Obligation	A3	AA

Additional information on the City's long term-debt can be found in Note 2.M on pages 53-60 of this report.

Economic Factors and Next Year’s Budgets and Rates

In the fiscal year 2018 budget, the General Fund revenues are budgeted to increase by $778,814 or 12.55% from the fiscal year 2017 budget. A large portion of the increase, $400,000 is related to a contribution from the Kaufman Economic Development Corporation for the Downtown Streetscape Project. General property taxes make up about $1,669,187 or 24% of anticipated general fund revenues. Property values show an increase of $35,503,194 or 11.8% over the prior year primarily as a result of the overall improvement in the local economy, home values, and an increase in the number of new homes and businesses, including KLLM and Sonic. This increase is part of a trend the City has experienced over the last five years, strengthening what the City identifies as a turn-around in appraised values locally. The City Council adopted the tax rate of $0.8993686 per $100 assessed valuation which is a increase to the prior year's rate. The debt service portion of the tax rate increased by $0.1221139, from $0.2699075 to $0.3920213 per $100 of net assessed valuation. The maintenance and operations portion of the tax rate, $0.5073473 per $100 assessed valuation remained equal to the prior year's rate.

Sales tax, currently the largest revenue source for the General Fund, is budgeted at $2,114,884 or 30% of anticipated General Fund revenue. Wal-Mart, along with continued construction and opening of several new retail outlets, continues to positively impact sales tax revenue.

Other major revenue sources include $2,588,990 from water sales, $1,733,423 from sewer services, and $654,570 from franchise agreements. In fiscal year 2018, water rates were increased by 9.69%. The increase is a direct pass through of increased costs from the City's water supplier, North Texas Municipal Water District. For the average residential customer, this represents a $3.75 increase to their monthly water utility bill. Wastewater fees were increased by 5% to maintain fund solvency, maintain aging infrastructure, complying with regulatory requirements, and constructing projects and infrastructure to keep up with growing needs.

The fiscal year 2018 budget adopted by the City Council includes an increase of $837,841 or 13.6% in the expenditures in the General Fund operating budget and an increase of $386,955 or 9.5% in the business-type fund operating budget when compared to previous year's budget. The 2018 budget includes a City Secretary succession and transition, a 3% cost of living adjustment for the entire organization, two new Lieutenant positions in the Fire Department, removal of the Assistant Chief position, $150,000 in street maintenance rehabilitation, maintaining the Texas Municipal Retirement System Consumer Price Index participation to 70% (Ad Hoc), Green Ribbon Grant Match of $40,000 for the Downtown Streetscape Project, increased bulk water purchases from North Texas Municipal Water District, required sanitary sewer improvements mandated by the Texas Commission on Environmental Quality (TCEQ), a 5% utility fund franchise fee, an F250 Pickup truck for the Streets Department, 6 SCBA packs for a total cost of $45,000, a 5-year lease to purchase 10 tasers for the Police Department, $44,183 upgrade to the Climbing Tree Lift Station, and $5,218 for schematic design and construction budget for improvements to the Community Center that was purchased in 2016.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, 3003 S. Washington, Kaufman, Texas 75142.

BASIC FINANCIAL STATEMENTS

CITY OF KAUFMAN, TEXAS

STATEMENT OF NET POSITION

September 30, 2017

	Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Unit: Kaufman Economic Development Corporation
ASSETS				
Cash and cash equivalents	$ 7,207,393	$ 1,421,013	$ 8,628,406	$ 816,678
Receivables (net of allowance for uncollectibles)	659,093	561,320	1,220,413	140,000
Intergovernmental receivables	11,326,615	-	11,326,615	-
Due from component unit	1,829,509	-	1,829,509	-
Due from primary government	-	-	-	119,168
Inventories	-	24,567	24,567	-
Prepaid items	60,472	3,235	63,707	182
Restricted cash and cash equivalents	5,165,000	5,257,991	10,422,991	-
Capital assets:				
Non-depreciable	4,846,072	762,075	5,608,147	615,300
Depreciable (net of accumulated depreciation)	7,575,459	10,835,725	18,411,184	12,772
Total Assets	38,669,613	18,865,926	57,535,539	1,704,100
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charges on refunding	-	133,371	133,371	-
Difference in expected and actual pension experience	52,941	18,743	71,684	-
Changes in actuarial assumptions	85,517	35,607	121,124	-
Difference in projected and actual earnings on pension assets	333,839	123,170	457,009	-
Pension contributions after measurement date	145,920	51,664	197,584	-
Total Deferred Outflows of Resources	618,217	362,555	980,772	-
LIABILITIES				
Accounts payable	1,526,419	140,511	1,666,930	17,712
Accrued payroll payable	125,195	35,922	161,117	-
Accrued interest payable	203,533	25,560	229,093	-
Customer deposits payable	-	114,839	114,839	-
Due to component unit	119,168	-	119,168	-
Liabilities payable from restricted assets	-	75,943	75,943	-
Noncurrent liabilities:				
Due within one year	1,485,958	493,950	1,979,908	378,913
Due in more than one year	30,934,057	7,163,540	38,097,597	1,458,733
Total Liabilities	34,394,330	8,050,265	42,444,595	1,855,358
DEFERRED INFLOWS OF RESOURCES				
Deferred charges on refunding	68,720	-	68,720	-
Difference in expected and actual pension experience	51,713	17,415	69,128	-
Total Deferred Inflows of Resources	120,433	17,415	137,848	-
NET POSITION				
Net investment in capital assets	5,037,515	9,247,153	14,284,668	628,072
Restricted for:				
General government	4,251	-	4,251	-
Infrastructure improvements	-	111,201	111,201	-
Public safety	1,051,102	-	1,051,102	-
Public works	308,385	-	308,385	-
Parks and recreation	15,271	-	15,271	-
Debt service	267,421	179,011	446,432	-
Unrestricted (deficit)	(1,910,878)	1,623,436	(287,442)	(779,330)
Total Net Position (deficit)	$ 4,773,067	$ 11,160,801	$ 15,933,868	$ (151,258)

The notes to financial statements are an integral part of this statement.

CITY OF KAUFMAN, TEXAS
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2017

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
					Primary Government			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Kaufman Economic Development Corporation
Function/Programs:								
Primary government:								
Governmental activities:								
General government	$ 889,202	$ 288,218	$ 6,719	$ -	$ (594,265)	$ -	$ (594,265)	$ -
Public safety	2,369,520	195,061	27,265	-	(2,147,194)	-	(2,147,194)	-
Public works	998,534	295,618	14,411	1,401,852	713,347	-	713,347	-
Public services and operations	324,759	-	-	-	(324,759)	-	(324,759)	-
Parks and recreation	503,986	1,870	-	-	(502,116)	-	(502,116)	-
Interest on long-term debt	645,093	-	-	-	(645,093)	-	(645,093)	-
Total governmental activities	5,731,094	780,767	48,395	1,401,852	(3,500,080)	-	(3,500,080)	-
Business-type activities:								
Utility	3,816,367	3,886,217	20,191	33,813	-	123,854	123,854	-
Drainage	71,999	197,761	-	-	-	125,762	125,762	-
Total business-type activities	3,888,366	4,083,978	20,191	33,813	-	249,616	249,616	-
Total primary government	$ 9,619,460	$ 4,864,745	$ 68,586	$ 1,435,665	(3,500,080)	249,616	(3,250,464)	-
Component unit:								
Kaufman Economic Development Corporation	$ 250,341	$ -	$ -	$ -				(250,341)
Total component unit	$ 250,341	$ -	$ -	$ -				(250,341)
	General revenues:							
	Property taxes				2,370,809	-	2,370,809	-
	Sales taxes				2,070,430	-	2,070,430	690,143
	Franchise taxes				425,130	-	425,130	-
	Hotel occupancy taxes				31,825	-	31,825	-
	Alcoholic beverage taxes				8,028	-	8,028	-
	Investment earnings				5,214	11,985	17,199	414
	Gain on sale of capital asset				-	14,679	14,679	-
	Miscellaneous				115,475	851	116,326	-
	Transfers				23,129	(23,129)	-	-
	Total general revenues				5,050,040	4,386	5,054,426	690,557
	Change in net position				1,549,960	254,002	1,803,962	440,216
	Net position (deficit) - beginning				3,223,107	10,906,799	14,129,906	(591,474)
	Net position (deficit) - ending				$ 4,773,067	$ 11,160,801	$ 15,933,868	$ (151,258)

The notes to financial statements are an integral part of this statement.

CITY OF KAUFMAN, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2017

	General	Capital Improvements	Debt Service	Total Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 1,532,852	$ 4,021,277	$ 271,861	$ 1,381,403	$ 7,207,393
Receivables (net of allowance for uncollectibles)	611,802	-	37,187	10,104	659,093
Intergovernmental receivables	-	960,350	10,364,543	1,722	11,326,615
Due from component unit	1,829,509	-	-	-	1,829,509
Prepaid items	60,472	-	-	-	60,472
Restricted cash and cash equivalents	-	5,165,000	-	-	5,165,000
Total assets	$ 4,034,635	$ 10,146,627	$ 10,673,591	$ 1,393,229	$ 26,248,082
LIABILITIES					
Accounts payable	$ 197,624	$ 1,314,575	$ -	$ 14,220	$ 1,526,419
Accrued payroll payable	125,195	-	-	-	125,195
Due to component unit	119,168	-	-	-	119,168
Total liabilities	441,987	1,314,575	-	14,220	1,770,782
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-property taxes	78,246	-	41,627	-	119,873
Total deferred inflows of resources	78,246	-	41,627	-	119,873
FUND BALANCES					
Nonspendable:					
Long-term receivable	1,829,509	-	-	-	1,829,509
Prepaid items	60,472	-	-	-	60,472
Restricted:					
Capital projects	-	8,832,052	-	-	8,832,052
General government	-	-	-	4,251	4,251
Public safety	-	-	-	1,051,102	1,051,102
Public works	-	-	-	308,385	308,385
Parks and recreation	-	-	-	15,271	15,271
Debt service	-	-	10,631,964	-	10,631,964
Assigned:					
Capital outlay	100,476	-	-	-	100,476
Unassigned	1,523,945	-	-	-	1,523,945
Total fund balances	3,514,402	8,832,052	10,631,964	1,379,009	24,357,427
Total liabilities, deferred inflows of resources, and fund balances	$ 4,034,635	$ 10,146,627	$ 10,673,591	$ 1,393,229	$ 26,248,082

The notes to financial statements are an integral part of this statement.

CITY OF KAUFMAN, TEXAS

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
September 30, 2017

Amounts reported for governmental activities in the statement of net position (page 26) are different because:

Total fund balances - governmental funds (page 28)		$ 24,357,427
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		12,421,531
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.		119,873
Deferred outflows of resources are not reported in the governmental funds:		
Difference in expected and actual pension experience	$ 52,941	
Changes in actuarial assumptions	85,517	
Difference in projected and actual earnings on pension assets	333,839	
Pension contributions after measurement date	145,920	618,217
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the governmental funds balance sheet.		(203,533)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Due within one year	(1,485,958)	
Due in more than one year	(30,934,057)	(32,420,015)
Deferred inflows of resources are not reported in the governmental funds:		
Deferred charges on refunding	(68,720)	
Difference in expected and actual pension experience	(51,713)	(120,433)
Net position of governmental activities (page 26)		$ 4,773,067

The notes to financial statements are an integral part of this statement.

CITY OF KAUFMAN, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended September 30, 2017

	General	Capital Improvements	Debt Service	Total Nonmajor Funds	Total Governmental Funds
REVENUES					
Property taxes	$ 1,523,111	$ -	$ 800,092	$ -	$ 2,323,203
Sales taxes	2,070,430	-	-	-	2,070,430
Franchise taxes	425,130	-	-	-	425,130
Hotel occupancy taxes	-	-	-	31,825	31,825
Alcoholic beverage taxes	8,028	-	-	-	8,028
Licenses and permits	288,218	-	-	-	288,218
Fines and forfeitures	170,229	-	-	24,834	195,063
Charges for services	297,488	-	-	-	297,488
Investment earnings	2,230	1,782	-	1,201	5,213
Miscellaneous	79,488	-	-	35,986	115,474
Intergovernmental	17,611	976,010	-	28,521	1,022,142
Contributions and donations	2,263	-	-	-	2,263
Total revenues	4,884,226	977,792	800,092	122,367	6,784,477
EXPENDITURES					
Current:					
General government	883,554	-	-	8,710	892,264
Public safety	2,484,328	-	-	81,513	2,565,841
Public works	676,340	-	-	-	676,340
Public services and operations	318,491	-	-	-	318,491
Parks and recreation	353,984	-	-	31,825	385,809
Debt service:					
Principal retirement	416,946	-	909,469	-	1,326,415
Interest and fiscal charges	45,393	-	527,742	-	573,135
Bond issuance costs	-	55,169	-	-	55,169
Capital outlay:					
Public works	-	3,475,387	-	-	3,475,387
Total expenditures	5,179,036	3,530,556	1,437,211	122,048	10,268,851
Excess (deficiency) of revenues over (under) expenditures	(294,810)	(2,552,764)	(637,119)	319	(3,484,374)
OTHER FINANCING SOURCES (USES)					
Transfers in	322,407	17,845	100,865	134,442	575,559
Transfers out	(252,287)	(160,126)	(136,423)	(3,594)	(552,430)
General obligation bonds issued	-	9,830,000	-	-	9,830,000
Capital leases	-	-	136,423	-	136,423
Sale of capital assets	3,451	-	-	19,996	23,447
Total other financing sources (uses)	73,571	9,687,719	100,865	150,844	10,012,999
Net change in fund balances	(221,239)	7,134,955	(536,254)	151,163	6,528,625
Fund balances-beginning, as restated	3,735,641	1,697,097	11,168,218	1,227,846	17,828,802
Fund balances-ending	$ 3,514,402	$ 8,832,052	$ 10,631,964	$ 1,379,009	$ 24,357,427

The notes to financial statements are an integral part of this statement.

CITY OF KAUFMAN, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Fiscal Year Ended September 30, 2017

Amounts reported for governmental activities in the statement of activities (page 27) are different because:

Net Change in Fund Balances - total governmental funds (page 30)		$ 6,528,625
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlay recorded as capital assets in the current period.		3,957,892
The net effect of various miscellaneous transactions involving capital assets (i.e., asset retirements/disposals) is to decrease net position.		(53,128)
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds.		(618,845)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Certificates of obligation retirement	$ 80,000	
General obligation bonds issued	(9,830,000)	
General obligation bonds retirement	191,200	
Pass through bond retirement	305,000	
Amortization of bond premiums/discounts	(1,545)	
Amortization of deferred charge on refunding	14,994	
Note payable retirement	273,269	
Tax anticipation note retirement	60,000	
Development agreement payable retirement	339,000	
Capital lease issued	(136,423)	
Capital lease retirement	77,946	(8,626,559)
Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds. Change in accrued interest.		(30,238)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		47,608
Pension contributions are recorded as expenditures in the governmental funds. However, in the statement of activities, these contributions are converted to the full accrual GASBS 68 pension amounts.		
Deferred outflows-assumption changes	(53,210)	
Deferred outflows-investment experience	(118,014)	
Deferred outflows-contributions	(15,879)	
Deferred inflows-actuarial experience	121,707	(65,396)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Compensated absences	2,888	
Net pension liability	407,113	410,001
Change in net position of governmental activities (page 27)		$ 1,549,960

The notes to financial statements are an integral part of this statement.

CITY OF KAUFMAN, TEXAS

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2017

	Business-type Activities - Enterprise		
	Utility	Nonmajor Enterprise Fund	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 1,340,177	$ 80,836	$ 1,421,013
Restricted cash and cash equivalents	75,943	-	75,943
Receivables (net of allowance for uncollectibles)	546,480	14,840	561,320
Inventories	24,567	-	24,567
Prepaid items	3,235	-	3,235
Total current assets	1,990,402	95,676	2,086,078
Noncurrent Assets:			
Restricted cash and cash equivalents	5,182,048	-	5,182,048
Capital assets (net, where applicable of accumulated depreciation)	11,544,602	53,198	11,597,800
Total noncurrent assets	16,726,650	53,198	16,779,848
Total assets	18,717,052	148,874	18,865,926
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding	133,371	-	133,371
Changes in actuarial assumptions	35,607	-	35,607
Difference in expected and actual pension expense	18,743	-	18,743
Difference in projected and actual earnings on pension assets	123,170	-	123,170
Pension contributions after measurement date	51,664	-	51,664
Total deferred outflows of resources	362,555	-	362,555
LIABILITIES			
Current Liabilities:			
Accounts payable	135,159	5,352	140,511
Accrued payroll payable	32,805	3,117	35,922
Compensated absences	23,265	1,700	24,965
Customer deposits payable	114,839	-	114,839
Bonds payable	420,400	-	420,400
Capital lease payable	33,585	-	33,585
Development agreement payable	15,000	-	15,000
Accrued interest payable	25,560	-	25,560
Current liabilities payable from restricted assets:			
Accounts payable	75,943	-	75,943
Total current liabilities	876,556	10,169	886,725
Noncurrent Liabilities:			
Bonds payable	6,486,290	-	6,486,290
Capital lease payable	106,606	-	106,606
Development agreement payable	389,916	-	389,916
Net pension liability	180,728	-	180,728
Total noncurrent liabilities	7,163,540	-	7,163,540
Total liabilities	8,040,096	10,169	8,050,265
DEFERRED INFLOWS OF RESOURCES			
Difference in expected and actual pension experience	17,415	-	17,415
Total deferred inflows of resources	17,415	-	17,415
NET POSITION			
Net investment in capital assets	9,193,955	53,198	9,247,153
Restricted for infrastructure improvements	111,201	-	111,201
Restricted for debt service	179,011	-	179,011
Unrestricted	1,537,929	85,507	1,623,436
Total net position	$ 11,022,096	$ 138,705	$11,160,801

The notes to financial statements are an integral part of this statement.

CITY OF KAUFMAN, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Fiscal Year Ended September 30, 2017

	Business-type Activities - Enterprise		
	Utility	**Nonmajor Enterprise Fund**	**Total Enterprise Funds**
Operating revenues:			
Water revenue	$ 2,315,470	$ -	$ 2,315,470
Sewer revenue	1,496,466	-	1,496,466
Drainage revenue	-	197,761	197,761
Rental	26,726	-	26,726
Miscellaneous	47,555	-	47,555
Total operating revenues	3,886,217	197,761	4,083,978
Operating expenses:			
Personnel services	787,748	71,999	859,747
Supplies and materials	78,242	-	78,242
Maintenance and repair	308,136	-	308,136
Contractual services	1,593,413	-	1,593,413
Depreciation and amortization	917,094	-	917,094
Total operating expenses	3,684,633	71,999	3,756,632
Operating income	201,584	125,762	327,346
Nonoperating revenue (expenses):			
Investment earnings	11,985	-	11,985
Gain on sale of capital asset	14,679	-	14,679
Insurance proceeds	851	-	851
Interest expense	(131,734)	-	(131,734)
Total nonoperating revenue (expenses)	(104,219)	-	(104,219)
Income before contributions and transfers	97,365	125,762	223,127
Capital contributions	54,004	-	54,004
Transfer in	159,261	-	159,261
Transfer out	(182,390)	-	(182,390)
Change in net position	128,240	125,762	254,002
Net position-beginning	10,893,856	12,943	10,906,799
Net position-ending	$11,022,096	$ 138,705	$11,160,801

The notes to financial statements are an integral part of this statement.

CITY OF KAUFMAN, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended September 30, 2017

	Business-type Activities - Enterprise		
	Utility	Nonmajor Enterprise Fund	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$ 3,830,898	$ 197,110	$ 4,028,008
Payments to suppliers and service providers	(1,906,932)	563	(1,906,369)
Payments to employees for salaries and benefits	(933,536)	(74,162)	(1,007,698)
Net cash provided by (used for) operating activities	990,430	123,511	1,113,941
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	159,261	-	159,261
Transfers to other funds	(182,390)	-	(182,390)
Net cash provided by (used for) noncapital financing activities	(23,129)	-	(23,129)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(548,183)	(53,198)	(601,381)
Capital contributions	54,004	-	54,004
Proceeds from sale of capital assets	14,679	-	14,679
Insurance proceeds	851	-	851
Principal paid on bond maturities	(383,800)	-	(383,800)
Interest and fiscal charges paid on bonds	(203,743)	-	(203,743)
Principal paid on leased assets	(16,302)	-	(16,302)
Interest paid on leased assets	(800)	-	(800)
Net cash provided by (used for) capital and related financing activities	(1,083,294)	(53,198)	(1,136,492)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	11,985	-	11,985
Net cash provided by investing activities	11,985	-	11,985
Net increase (decrease) in cash and cash equivalents	(104,008)	70,313	(33,695)
Cash and cash equivalents October 1 (including $5,210,127 reported in restricted accounts)	6,702,176	10,523	6,712,699
Cash and cash equivalents September 30 (including $5,257,991 reported in restricted accounts)	$ 6,598,168	$ 80,836	$ 6,679,004
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$ 201,584	$ 125,762	$ 327,346
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation and amortization	917,094	-	917,094
(Increase) decrease in accounts receivable	(63,762)	(651)	(64,413)
(Increase) decrease in inventory	15,603	-	15,603
(Increase) decrease in prepaid items	2,387	-	2,387
(Increase) decrease in pension related deferred outflows	29,162	-	29,162
Increase (decrease) in accounts payable	54,869	(1,398)	53,471
Increase (decrease) in accrued payroll payable	(1,951)	563	(1,388)
Increase (decrease) in compensated absences	(7,081)	(765)	(7,846)
Increase (decrease) in customer deposits	8,443	-	8,443
Increase (decrease) in net pension liability	(165,918)	-	(165,918)
Total adjustments	788,846	(2,251)	786,595
Net cash provided by (used for) operating activities	$ 990,430	$ 123,511	$ 1,113,941
Schedule of non-cash transactions:			
Capital assets purchased with capital lease	$ 140,191	$ -	$ 140,191

The notes to financial statements are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. *Governmental activities,* which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities,* which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

B. Reporting entity

The City of Kaufman, Texas (the “City”) was incorporated in 1853, and operates under a Council-Manager form of government. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. The City (the primary government) is financially accountable if it appoints a voting majority of the organization’s governing board and (1) is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. Additionally, the City is required to consider other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component unit.

Discretely presented component unit. The Corporation described below is included in the City's reporting entity because the City appoints the governing body and the Corporation is fiscally dependent on the City. The Corporation is reported as a discretely presented component unit since the governing body is not substantively the same as the governing body of the City, and they provides services to the citizens of Kaufman and the surrounding area as opposed to only the primary government. To emphasize that it is separate from the City, it is reported in a separate column in the financial statements.

The *Kaufman Economic Development Corporation* (the “Corporation”) is responsible for collecting and disbursing the one-half percent sales tax to be used for economic development within the City. The members of the Corporation’s board are appointed by the City. The City can impose its will on the Corporation by significantly influencing the program, projects, activities, or level of service performed by the Corporation. The Corporation is presented as a governmental fund type and has a September 30 year end.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Reporting entity (continued)

Separately issued financial reports are available for the Corporation. This report may be obtained by contacting the following office.

City of Kaufman
3003 S. Washington
Kaufman, Texas 75142

C. Basis of presentation – government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As discussed earlier, the City has a discretely presented component unit. The Economic Development Corporation is considered to be a major component unit and is shown in a separate column in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's utility function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of presentation – fund financial statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category—governmental and proprietary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of presentation – fund financial statements (continued)

The *capital improvements fund* accounts for the acquisition and construction of the City's major capital facilities, other than those financed by proprietary funds.

The *debt service fund* is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

The City reports the following major enterprise fund:

The *utility fund* accounts for the activities of the sewage treatment plant, sewage pumping stations and collection systems, and the water distribution system.

During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

E. Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources.* The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Measurement focus and basis of accounting (continued)

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting.* Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period if received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

The proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting.*

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

1. *Cash and cash equivalents*

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit and short-term investments with original maturities of one year or less from the date of acquisition.

2. *Investments*

Investments for the City are reported at fair value (generally based on quoted market prices) except for the position in TexPool. In accordance with state law, TexPool operates in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, TexPool qualifies as a 2a7-like pool and is reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. TexPool is subject to regulatory oversight by the State Treasurer, although it is not registered with the SEC.

The State Comptroller of Public Accounts oversees TexPool. Federated Investors is the full service provider to the pools managing the assets, providing participant services, and arranging for all custody and other functions in support of the pools operations under a contract with the Comptroller.

TexPool is managed conservatively to provide a safe, efficient, and liquid investment alternative to Texas governments. The pools seek to maintain a $1.00 value per share as required by the Texas Public Funds Investment Act. TexPool investments consist exclusively of U.S. Government securities, repurchase agreements collateralized by U.S. Government securities, and AAA-rated no-load money market mutual funds. TexPool is rated AAAm by Standard & Poor's, the highest rating a local government investment pool can achieve. The weighted average maturities of the pools cannot exceed 60 days, with the maximum maturity of any investment limited to 13 months. TexPool , like its participants, is governed by the Texas Public Funds Investment Act, and is in full compliance with the Act.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

3. *Restricted assets*

Certain proceeds of the City's enterprise funds general obligation bonds are classified as restricted assets on the statement of net position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "revenue bond current debt service" account is used to segregate resources accumulated for debt service payments over the next twelve months. The "revenue bond construction" account is used to report those proceeds of revenue bond issuances that are restricted for use in construction. The "infrastructure improvements" account is used to segregate resources from impact fees for infrastructure improvements.

4. *Inventories and prepaid items*

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies and vehicle repair parts. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

5. *Capital assets*

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years.

As the government constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their acquisition value at the date of donation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed, net of interest earned on the invested proceeds over the same period. The amount of interest capitalized depends on the specific circumstances.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

Capital asset classes	Lives
Buildings	10-50
Improvements	7-30
Machinery and equipment	5-15
Infrastructure	30-50

6. *Deferred outflows/inflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for *deferred outflows of resources.* This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources reported in this year's financial statements include (1) a deferred outflow of resources related to the difference between expected and actual experience data used by the actuary, (2) a deferred outflow of resources related to changes in actuarial assumptions of the City's defined benefit pension plan, (3) a deferred outflow of resources for contributions made to the City's defined benefit pension plan between the measurement date of the net pension liabilities from that plan and the end of the City's fiscal year, (4) deferred outflows of resources related to the differences between the projected and actual investment earnings for the City's multiple-employer defined benefit plan, and (5) deferred charge on refunding. Deferred outflows for the difference in expected and actual pension experience is attributed to pension expense over a total of 3.91 years. Deferred outflows for changes in actuarial assumptions is attributed to pension expense over a total of 2.73 years. Deferred outflows for pension contributions will be recognized in the subsequent fiscal year. The differences between the projected and actual investment earnings are attributed to pension expense over a total of 5 years, including the current year. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. No deferred outflows of resources affect the governmental funds financial statements in the current year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for *deferred inflows of resources.* This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources are reported in the City's various statements of net position for (1) the difference between expected and actual experience data used by the actuary and (2) deferred charge on refunding. This deferred inflow of resources is attributed to pension expense over a total of 2.73 years, including the current year. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. In its governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The City will not recognize the related revenues until they are available (collected not later than 60 days after the end of the City's fiscal year) under the modified accrual basis of accounting. Accordingly, unavailable revenue from property taxes is reported in the governmental funds balance sheet.

7. *Long-term obligations*

In the government-wide financial statements, and proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. *Net position flow assumption*

Net position represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the government-wide financial statements. Net positions are classified in the following categories:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

Net investment in capital assets —This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position —This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position —This amount is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position".

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

9. *Fund balance flow assumption*

The governmental fund financial statements present fund balance categorized based on the nature and extent of the constraints placed on the specific purposes for which a government's funds may be spent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance —amounts that are not in spendable form (such as inventories and prepaid items) or are required to be maintained intact.

Restricted fund balance —amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance —amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

Assigned fund balance —amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.

Unassigned fund balance— amounts that represent fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed, or assigned. Positive balances are reported only in the general fund.

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

It is the long-term goal of the City to maintain a minimum unassigned fund balance in the General Fund equal to three months of the annually budgeted expenditures. The City will appropriate one percent (1%) of each year's General Fund budgeted expenditures until the identified goal is met.

G. Revenues and expenditures/expenses

1. *Program revenues*

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Revenues and expenditures/expenses (continued)

2. *Property taxes*

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property. Appraised values are established by the Kaufman County Appraisal District as market value and assessed at 100% of appraised value. Property taxes attach as an enforceable lien on property as of January 1. The Kaufman County Tax Assessor/Collector bills and collects the City's property taxes, which are due October 1. Full payment can be made prior to the next January 31 to avoid penalty and interest charges. Over time substantially all property taxes are collected.

3. *Compensated absences*

The City's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation from City service. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable. Vacation leave shall be taken during the year following its accumulation.

4. *Proprietary funds operating and nonoperating revenues and expenses*

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the utility and nonmajor enterprise funds are charges to customers for sales and services. The utility fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Revenues and expenditures/expenses (continued)

5. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash deposits with financial institutions

Custodial credit risk-deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. The City's deposits were fully insured or collateralized as required by State statutes at September 30, 2017. At year end, the bank balance of the City's deposits was $13,836,290. Of the bank balance, $500,000 was covered by federal depository insurance and the remaining balance, $13,336,290, was covered by collateral pledged in the City's name. The collateral was held in the City's name by the safekeeping department of the pledging bank's agent and had a fair value of approximately $16,352,000.

B. Investments

Public funds of the City may be invested in 1) obligations of the United States of America, its agencies and instrumentalities; 2) certificates of deposit; 3) fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its agencies and instrumentalities; 4) money market mutual funds; and 5) local government investment pools.

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

B. Investments (continued)

The State Treasurer's Investment Pool (TexPool) operates in accordance with state law, which requires it to meet all of the requirements of Rule 2a-7 of the Securities and Exchange Commission. See note 1.F.2, *Investments,* for a discussion of how the shares in the Pool are valued. The Pool has a credit rating of AAA from Standard & Poor's Financial Services. Local government investment pools in this rating category meet the highest standards for credit quality, conservative investment policies, and safety of principal. TexPool invests in a high quality portfolio of debt securities investments legally permissible for municipalities and school districts in the state.

Investment Type	Fair Value
TexPool	$ 379,124

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of September 30, 2017, the City's investment in TexPool was rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

Concentration of credit risk. The City's investment policy contains no limitations on the amount that can be invested in any one issuer.

TexPool is considered a cash equivalent on the Government-wide Statement of Net Position and on the Balance Sheets of the Fund Financial Statements.

C. Restricted assets

The balances of the restricted asset accounts in the Utility fund are as follows:

Revenue bond current debt service account	$ 179,011
Revenue bond construction	4,967,779
Infrastructure improvements	111,201
	$5,257,991

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

D. Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is the detail of receivables for the general, debt service, nonmajor governmental, utility, and nonmajor enterprise funds, including the applicable allowances for uncollectible accounts:

Receivables:	General	Debt Service	Nonmajor Governmental	Utility	Nonmajor Enterprise	Total
Taxes	$ 635,456	$ 45,112	$ -	$ -	$ -	$ 680,568
Accounts	27,922	-	-	594,978	18,885	641,785
Other	30	-	10,104	-	-	10,134
Gross receivables	663,408	45,112	10,104	594,978	18,885	1,332,487
Less: allowance for uncollectibles	(51,606)	(7,925)	-	(48,498)	(4,045)	(112,074)
Net total receivables	$ 611,802	$ 37,187	$ 10,104	$ 546,480	$ 14,840	$ 1,220,413

E. Intergovernmental Receivables

The Texas Department of Transportation ("TxDOT") has entered into a contract with the City to reimburse the City for a portion of the costs associated with the State Highway 34 re-alignment project ("SH34"). The maximum amount to be reimbursed totals $11,047,887. The City issued debt in the amount of $8,250,000 to fund these highway improvements. After completion of the work, the State of Texas shall be responsible for the maintenance of the state highway system, therefore, the costs associated with the SH34 have been expensed rather than capitalized by the City. The balance due as of September 30, 2017 was $10,364,543.

Kaufman County ("County") has entered into a contract with the City to reimburse the City for costs associated with the County Road 151 utility and road improvements. Under the agreement, the County agreed to reimburse the City for construction costs. The balance due as of September 30, 2017 was $960,350.

F. Kaufman Economic Development Corporation Receivables

On May 19, 2015, the City entered into an agreement with the Kaufman Economic Development Corporation (Corporation) to provide for the construction of the State Highway 34 re-alignment. Under the agreement the Corporation agrees to pay $100,000 per year beginning in fiscal year 2015 for a total of sixteen payments towards the project. The funds to be repaid at September 30, 2017 totaled $1,300,000.

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

F. Kaufman Economic Development Corporation Receivables (continued)

The Corporation also entered into an agreement with the City to pay the City up to 3/4 of eligible costs related to public improvements of the City's 380 developer agreement with Texas Opportunities, L.P., plus interest on the balance of the amount due to the developer, up to $245,967 per year for five years. The payments under the agreement commence on the first date of the eleventh month following the date the certificate of occupancy is issued to the developer. Actual payments made to the City as of September 30, 2017 totaled to $864,307. Future payment remaining totals $529,509 as of fiscal year end.

G. Capital assets

Capital asset activity for the year ended September 30, 2017, was as follows:

Governmental activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 953,524	$ -	$ -	$ 953,524
Construction in progress	862,661	3,376,908	(347,021)	3,892,548
Total capital assets not being depreciated	1,816,185	3,376,908	(347,021)	4,846,072
Capital assets being depreciated:				
Buildings	4,103,239	-	(517,188)	3,586,051
Machinery and equipment	2,850,043	148,491	(168,556)	2,829,978
Infrastructure	5,833,550	779,514	-	6,613,064
Totals capital assets being depreciated	12,786,832	928,005	(685,744)	13,029,093
Less accumulated depreciation for:				
Buildings	(1,583,074)	(129,992)	471,713	(1,241,353)
Machinery and equipment	(1,704,101)	(183,869)	160,903	(1,727,067)
Infrastructure	(2,180,230)	(304,984)	-	(2,485,214)
Total accumulated depreciation	(5,467,405)	(618,845)	632,616	(5,453,634)
Total capital assets, being depreciated, net	7,319,427	309,160	(53,128)	7,575,459
Governmental activities capital assets, net	$ 9,135,612	$ 3,686,068	$ (400,149)	$ 12,421,531

Depreciation expense was charged to the functions/programs of the governmental activities of the primary government as follows:

Governmental activities:	
General government	$ 17,938
Public safety	128,984
Public works	293,851
Parks and recreational	178,072
Total depreciation expense - governmental activities	$ 618,845

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

G. Capital assets (continued)

Business-type activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 549,375	$ -	$ -	$ 549,375
Construction in progress	-	212,700	-	212,700
Total capital assets not being depreciated	549,375	212,700	-	762,075
Capital assets being depreciated:				
Buildings	7,968,972	-	-	7,968,972
Improvements	14,483,875	187,865	-	14,671,740
Machinery and equipment	1,188,709	341,007	(84,057)	1,445,659
Total capital assets being depreciated	23,641,556	528,872	(84,057)	24,086,371
Less accumulated depreciation for:				
Buildings	(5,435,057)	(217,348)	-	(5,652,405)
Improvements	(6,319,114)	(563,785)	-	(6,882,899)
Machinery and equipment	(663,438)	(135,961)	84,057	(715,342)
Total accumulated depreciation	(12,417,609)	(917,094)	84,057	(13,250,646)
Total capital assets being depreciated, net	11,223,947	(388,222)	-	10,835,725
Business-type capital assets, net	$ 11,773,322	$ (175,522)	$ -	$ 11,597,800

Depreciation expense was charged to the functions/programs of the business-type activities of the primary government as follows:

Business-type activities:

Utility	$ 917,094

H. Construction commitments

The City has active construction projects as of September 30, 2017. The projects include street improvements, municipal facility construction, water and sewer improvements, and drainage improvements. At year end, the City's commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment
Street improvements	$ 1,638,772	$ 4,933,070
Municipal facility	2,057,212	4,647,185
Water and sewer improvements	49,838	76,162
Drainage improvements	40,454	186,046
	$ 3,786,276	$ 9,842,463

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

H. Construction commitments (continued)

The street improvements and municipal facility projects are commitments of the City's Capital Improvement and Grants funds. The projects are being funded by general obligation bonds, certificates of obligation, and grant proceeds.

The water and sewer improvements and drainage improvements are commitments of the City's Utility fund and Drainage fund. The projects are being funded by general obligation bonds, certificates of obligation, and grant proceeds.

I. Other significant commitments

The City entered into a contract with the North Texas Municipal Water District on July 24, 2014. The City agreed to take or pay for at least 440,188,000 gallons of water annually. The rate paid for the fiscal year ended September 30, 2017 was 2.58 cents per thousand gallons. The contract shall continue in force and effect for twenty years.

Actual payments for the year ended September 30, 2017 were $1,186,772.

The City created a tax increment reinvestment zone (the "Zone") to fund a series of infrastructure improvements, which are needed to incentivize and accelerate the rate of development in the Zone. On April 24, 2017, the City authorized the execution of a development agreement with JWS Land, Ltd. ("Company"). Under the agreement the Company is to design and construct public improvements in the Zone. Following completion of the public improvements with funding provided by the Company, the City shall acquire the public improvements and reimburse the acquisition funding by the use of tax increment reinvestment zone funds. As of September 30, 2017 the unreimbursed costs due the Company totaled $0.

The City entered into a contract with Kaufman County to operate and maintain a consolidated county-wide public health and safety communication facility. Population from census data is used to calculate the City's annual projected cost. The term of the agreement extends to September 30, 2018 but shall continue in full force and effect thereafter, provided the City may withdraw on one year notice. Actual payments for the year ended September 30, 2017 were $110,000.

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

J. Tax Abatements

The City has two programs through which tax abatements are provided:

The City is authorized by Texas Tax Code Chapter 312 Property Redevelopment and Tax Abatement Act (Tax Abatement Act) to enter into property tax abatement agreements as an economic development tool available to cities to attract new industries and to encourage the retention and development of existing businesses through property tax exemptions or reductions. Tax abatements up to one-hundred percent of property tax on the value of the property improvement with a duration of up to ten years, may be established upon property within the City or the extra-territorial jurisdiction of the City. The threshold criteria used for the abatement include adding a minimum of ten full-time employees and adding at least $1,000,000 to the tax rolls. The City recaptures any and all property tax revenue lost as a result of the agreement if the owner of the property fails to complete, make, and maintain the threshold criteria. The City Council establishes the criteria and guidelines that govern all tax abatement agreements including the percentage amount and duration of the tax abatement, which is not to exceed ten years. The market value of the property is reduced by the exempted amount under the agreement to arrive at the taxable value used to bill the property owner.

Tax Abatement Program	Amount Abated
Tax Abatement Act	$ 21,400

K. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

L. Lease obligations

1. Capital lease (as lessee)

The City is currently purchasing equipment under lease purchase agreements. The interest on the leases range from 2.49-4.8%.

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

L. Lease obligations (continued)

The assets acquired through capital leases are as follows:

Asset	Governmental Activities	Business-type Activities
Machinery and equipment	$ 741,353	$ 140,191
Less: accumulated depreciation	(178,209)	(20,409)
Total	$ 563,144	$ 119,782

Annual debt service requirements to maturity are as follows –

	Capital Lease Obligations			
Year Ending	Governmental Activities		Business-type Activities	
September 30	Principal	Interest	Principal	Interest
2018	$ 112,726	$ 10,596	$ 33,585	$ 3,996
2019	77,635	7,507	34,541	3,038
2020	79,686	5,456	35,527	2,054
2021	81,796	3,346	36,538	1,044
2022	47,395	1,180	-	-
	$ 399,238	$ 28,085	$ 140,191	$ 10,132

M. Long-term liabilities

Certificates of Obligation

The City issues certificates of obligation to provide funds for the acquisition, construction and maintenance of major capital facilities. Certificates of obligation have been issued for governmental and business-type activities. Certificates of obligation are direct obligations and pledge the full faith and credit of the government. Certificates of obligation outstanding at September 30, 2017 are as follows:

Governmental Activities:

Series	Issue Amount	Maturity Date	Interest Rate	Year-end Balances
2014	$ 1,045,000	2/15/2034	2.0-4.0	$ 930,000
2016B	1,250,000	2/15/2036	2.75-4.0	1,215,000
Total				$ 2,145,000

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

M. Long-term liabilities (continued)

Business-type Activities:

Series	Issue Amount	Maturity Date	Interest Rate	Year-end Balances
2011	$ 880,000	2/15/2027	2.0-3.0	$ 690,000
2016A	3,990,000	2/15/2036	2.0-3.0	3,850,000
2016B	880,000	2/15/2036	2.75-4.0	855,000
Total				$ 5,395,000

The debt service requirements for the City's certificates of obligation are as follows:

	Certificates of Obligation			
Year Ending	Governmental Activities		Business-Type Activities	
September 30	Principal	Interest	Principal	Interest
2018	$ 85,000	$ 68,521	$ 235,000	$ 146,055
2019	90,000	65,921	240,000	139,905
2020	90,000	63,221	260,000	133,980
2021	90,000	60,408	275,000	127,305
2022	95,000	57,271	275,000	173,055
2023-2027	540,000	238,834	1,520,000	496,485
2028-2032	665,000	144,626	1,325,000	297,145
2033-2036	490,000	29,828	1,265,000	79,365
	$ 2,145,000	$ 728,630	$ 5,395,000	$ 1,593,295

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition, construction and maintenance of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds outstanding at September 30, 2017 are as follows:

Governmental Activities:

Series	Issue Amount	Maturity Date	Interest Rate	Year-end Balances
2011 - Refunding	$ 1,275,000	2/15/2022	2.0-2.5	$ 629,000
2016 - Refunding	275,000	2/15/2022	1.5-2.15	230,000
2016	1,000,000	2/15/2036	2.75	1,000,000
2017	3,200,000	2/15/2037	3.7	3,200,000
2017A	6,630,000	2/15/2057	2.375	6,630,000
Total				$ 11,689,000

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

M. Long-term liabilities (continued)

Business-type Activities:

Series	Issue Amount	Maturity Date	Interest Rate	Year-end Balances
2011 - Refunding	$ 600,000	2/15/2022	3.0	$ 296,000
2016 - Refunding	1,180,000	2/15/2027	1.5-2.15	1,070,000
Total				$ 1,366,000

The debt service requirements for the City's general obligation bonds are as follows:

	General Obligation Bonds			
Year Ending	Governmental Activities**		Business-Type Activities	
September 30	Principal	Interest	Principal	Interest
2018	$ 244,600	$ 199,540	$ 185,400	$ 25,759
2019	211,400	156,983	193,600	22,406
2020	245,400	151,527	169,600	18,800
2021	248,800	144,911	176,200	15,090
2022	253,800	138,154	171,200	11,360
2023-2027	930,000	596,533	470,000	18,780
2028-2032	1,130,000	418,495	-	-
2033-2037	1,795,000	159,703	-	-
	$ 5,059,000	$ 1,965,846	$ 1,366,000	$ 112,195

** Does not include 2017A general obligation bond for governmental activities in the amount of $6,630,000 that does not have a repayment schedule.

Pass-Through Toll Revenue and Limited Tax Bonds

The City issues pass-through toll revenue and limited tax bonds to provide funds for the design, development, construction and relocation of SH 34. Pass-through toll revenue and limited tax bonds have been issued for the governmental activities. Pass-through toll revenue and limited tax bonds outstanding at September 30, 2017 are as follows:

Governmental Activities:

Series	Issue Amount	Maturity Date	Interest Rate	Year-end Balances
2014	$ 8,255,000	8/15/2036	2.0-4.0	$ 7,950,000

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

M. Long-term liabilities (continued)

The debt service requirements for the City's pass through bonds are as follows:

	Pass Through Bonds	
	Governmental Activities	
Year Ending September 30	Principal	Interest
2018	$ 310,000	$ 263,806
2019	315,000	257,606
2020	325,000	251,306
2021	330,000	244,806
2022	340,000	236,556
2023-2027	1,840,000	1,033,181
2028-2032	2,045,000	717,838
2033-2036	2,445,000	282,800
	$ 7,950,000	$ 3,287,899

Notes Payable

Notes payable currently outstanding and reported as a liability of the City's governmental activities are:

The City received a loan from State Infrastructure Bank for $4,500,000 to fund the City's portion of the State Highway 34 re-alignment project in July 2014. The loan will be repaid in 17 annual installments, with the first principal payment due in July 2018. Interest payments are to be made annually beginning July 2015 at an interest rate of 3%.

The City entered into an agreement with Kaufman County ("County") to help pay for the State Highway 34 re-alignment project. The City is to be reimbursed by the Texas Department of Transportation ("TxDOT") for 80% of the cost of the project and has agreed to reimburse the County 39.99% of the amount received from TxDOT. The balance due at September 30, 2017 was $4,144,726.

The payment of this note will not begin until the project is completed and traffic flows on the roadway. The monies from TxDOT will be based on the number of vehicles that use the roadway; therefore, the payment amount to the County will be calculated on the monies received. At this time, there is not a timeline of payments to be expected to be made by TxDOT or the City.

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

M. Long-term liabilities (continued)

The debt service requirements for the City's notes payable are as follows:

Year Ending September 30	Notes Payable ** Governmental Activities Principal	Notes Payable ** Governmental Activities Interest
2018	$ 206,786	$ 135,000
2019	212,990	128,796
2020	219,379	122,407
2021	225,961	115,825
2022	232,739	109,047
2023-2027	1,272,715	436,215
2028-2032	1,475,425	233,505
2033-2036	654,005	29,575
	$ 4,500,000	$ 1,310,370

** Does not include note payable in the amount of $4,144,726 that does not have a repayment schedule.

Tax Anticipation Note

Tax anticipation note payable currently outstanding and reported as a liability of the City's governmental activities consist of:

The Tax Anticipation Note, Series 2015, with an interest rate of 2.00 percent, was issued on December 22, 2015, for $365,000, and matures on February 15, 2022. The proceeds were utilized for the public purpose of paying costs of constructing, installing and equipping municipal park improvements, acquiring computer equipment and software for the Development Services department and vehicles and equipment for the Public Works and Police Departments, renovation to existing municipal buildings including City Hall and Police building and Fire Department building, street and road improvements and improvements, storm drainage improvements, extensions and additions to the City's waterworks and sewer system (the "Project"), and to pay the costs of issuance incurred in connection with the issuance of the Note.

The debt service requirements for the City's tax anticipation note payable is as follows:

Year Ending September 30	Tax Anticipation Note Governmental Activities Principal	Tax Anticipation Note Governmental Activities Interest
2018	$ 60,000	$ 5,500
2019	60,000	4,300
2020	60,000	3,100
2021	60,000	1,900
2022	65,000	650
	$ 305,000	$ 15,450

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

M. Long-term liabilities (continued)

Development Agreements Payable

Development agreement payable currently outstanding and reported as a liability of the City’s governmental activities consist of:

A development agreement with Texas Opportunities, L.P. ("Developer") whereby the Developer constructed certain public improvements in the City of Kaufman, including roadways and utilities on the Developer's property, which will result in economic development in the City, thereby increasing property values and tax revenue for the City. The cost to the Developer for these improvements totaled $1,695,000. The City is to reimburse the Developer for these actual costs of construction. Payments are to begin on the payable to the Developer in April 2015 and will be repaid over a period of five years.

The development agreement payable currently outstanding and reported as a liability of the City’s governmental activities at September 30, 2017 totaled $678,000. The amount due within one year totals $339,000.

Development agreements payable currently outstanding and reported as a liability of the City’s business-type activities consist of:

An interlocal agreement with Kaufman County ("County") for the construction of improvements to the City's water system. Under the agreement, the City agreed to reimburse the County for the full costs of the design and construction at a future date after the City has collected water impact fees. The City is only obligated to reimburse such costs from proceeds received from water impact fees over fifteen years. If any unpaid balance remains after the fifteen year period, the debt will be forgiven. The City has recorded its liability under the agreement as long term. Maturity of the City's obligation has been allocated over the term of the agreement in accordance with estimated collection of water impact fees to be used in payment of the obligation due. The balance due the County at fiscal year end was $254,916.

A Chapter 380 Partnership Agreement with the First Baptist Church of Kaufman for the construction of public improvements to the City's water system. Under the agreement the City agreed to reimburse the Church $150,000 for construction of these improvements over ten years. Payments will commence on the first day of the first month following the first anniversary date of the issuance of the first certificate of occupancy and continue for a total of ten years.

The development agreements payable currently outstanding and reported as a liability of the City’s business-type activities at September 30, 2017 totaled $404,916. The amount due within one year totals $15,000.

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

M. Long-term liabilities (continued)

The debt service requirements for the City's development agreements payable are as follows:

	Development Agreements Payable**		
Year Ending	Governmental Activities		Business-Type Activities
September 30	Principal	Interest	Principal
2018	$ 339,000	$ 25,425	$ 15,000
2019	339,000	12,713	15,000
2020	-	-	15,000
2021	-	-	15,000
2022	-	-	15,000
2023-2027	-	-	75,000
	$ 678,000	$ 38,138	$ 150,000

** Does not include development agreement payable from business-type activities in the amount of $254,916 that does not have a repayment schedule.

Changes in Long-term Liabilities

Changes in the City's long-term liabilities for the year ended September 30, 2017 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
Certificates of obligation	$ 2,225,000	$ -	$ (80,000)	$ 2,145,000	$ 85,000
General obligation bonds	2,050,200	9,830,000	(191,200)	11,689,000	244,600
Pass through bonds	8,255,000	-	(305,000)	7,950,000	310,000
Less deferred amounts:					
For issuance discounts	(34,966)	-	1,814	(33,152)	-
For issuance premium	4,178	-	(269)	3,909	-
Total bonds payable	12,499,412	9,830,000	(574,655)	21,754,757	639,600
Notes payable	8,917,995	-	(273,269)	8,644,726	206,786
Tax anticipation note	365,000	-	(60,000)	305,000	60,000
Development agreements payable	1,017,000	-	(339,000)	678,000	339,000
Capital leases	340,761	136,423	(77,946)	399,238	112,726
Compensated absences	130,734	113,578	(116,466)	127,846	127,846
Net pension liability	917,561	-	(407,113)	510,448	-
Governmental activity Long-term liabilities	$ 24,188,463	$ 10,080,001	$ (1,848,449)	$ 32,420,015	$ 1,485,958

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

M. Long-term liabilities (continued)

Certificates of obligation, general obligation bonds, pass through bonds, notes payable and tax anticipation note payable issued for governmental activity purposes are liquidated by the debt service fund. Governmental developer agreements payable, capital lease obligations, compensated absences, and net pension liability will be liquidated by the general fund. Vacation leave is expected to be taken during the year following its accumulation.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Bonds payable:					
Certificates of obligation	$ 5,600,000	$ -	$ (205,000)	$ 5,395,000	$ 235,000
General obligation bonds	1,544,800	-	(178,800)	1,366,000	185,400
Less deferred amounts:					
For issuance premiums	153,994	-	(8,304)	145,690	-
Total bonds payable	7,298,794	-	(392,104)	6,906,690	420,400
Development agreement payable	404,916	-	-	404,916	15,000
Capital lease	16,302	140,191	(16,302)	140,191	33,585
Compensated absences	32,811	18,250	(26,094)	24,967	24,965
Net pension liability	346,646	-	(165,918)	180,728	-
Business-type activity Long-term liabilities	$ 8,099,469	$ 158,441	$ (600,418)	$ 7,657,492	$ 493,950

Certificate of obligation, general obligation bonds, development agreements payable, capital lease obligations, compensated absences and net pension liability issued for business-type activities are repaid from the utility fund.

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

N. Interfund transfers

The composition of interfund transfers as of September 30, 2017 is as follows:

	Transfer In					
Transfer out:	**General**	**Capital Improvements**	**Debt Service**	**Nonmajor Governmental**	**Utility**	**Total**
General	$ -	$ 17,845	$ 100,000	$ 134,442	$ -	$ 252,287
Capital Improvements	-	-	865	-	159,261	160,126
Debt Service	136,423	-	-	-	-	136,423
Nonmajor Governmental	3,594	-	-	-	-	3,594
Utility	182,390	-	-	-	-	182,390
Total	$ 322,407	$ 17,845	$ 100,865	$ 134,442	$ 159,261	$ 734,820

Transfers are primarily used to move debt proceeds to the General Fund. Repayments of a long-term receivable received by the General Fund were transferred to the Debt Service and Grants funds. Transfers from the Utility Fund to the General Fund for administrative services.

O. Discretely presented component units

1. Kaufman Economic Development Corporation (Corporation)

Cash deposits with financial institutions

At year end the bank balance of the Corporation's deposits was $821,048. Of the bank balance, $250,000 was covered by federal depository insurance and the remaining balance, $571,048 was covered by collateral pledged in the Corporation's name. The collateral was held in the Corporation's name by the safekeeping department of the pledging bank's agent and had a fair value of approximately $1,367,000.

Loan Receivable

The Corporation has an outstanding loan receivable at zero percent interest totaling $140,000 at fiscal year end due from a Company as part of an economic development agreement. The loan shall be repaid by the Company by making $10,000 per year payments to the Corporation each year for fifteen years. Management feels that collectability of the loan is certain. Accordingly, no allowance for doubtful accounts has been recorded for the loan receivable.

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

O. Discretely presented component units (continued)

Capital assets

Capital asset activity for the Corporation for the year ended September 30, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 615,300	$ -	$ -	$ 615,300
Total capital assets not being depreciated	615,300	-	-	615,300
Capital assets being depreciated:				
Infrastructure	25,453	-	-	25,453
Machinery and equipment	12,401	-	(3,123)	9,278
Totals capital assets being depreciated	37,854	-	(3,123)	34,731
Less accumulated depreciation				
Infrastructure	(10,984)	(1,697)	-	(12,681)
Machinery and equipment	(12,157)	(244)	3,123	(9,278)
Total accumulated depreciation	(23,141)	(1,941)	3,123	(21,959)
Total capital assets being depreciated, net	14,713	(1,941)	-	12,772
Corporation capital assets, net	$ 630,013	$ (1,941)	$ -	$ 628,072

Commitments

On August 11, 2015, the Corporation amended an agreement with a Company to grant them up to $79,000 for certain infrastructure relocations due to the Highway 34 By-pass project. Part of the agreement stipulates that the Company is required to retain a minimum of 100 jobs at their Kaufman plant for ten years with numbers verified annually by the Texas Workforce Commission. The agreement also contains a claw back provision, should the Company drop below 100 employees in any year, the Company will be required to pay back a prorated amount of the grant the following year. As of September 30, 2017, the Corporation has not made any payments under this agreement.

On July 1, 2014, the Corporation entered into an office space and support agreement with the Kaufman Chamber of Commerce (Chamber). The Chamber agrees to provide a range of economic development services to the Corporation that includes staff, office support systems, local phone, DSL and wireless service, and office space. The agreement will remain in effect for three years at a monthly payment of $1,314. Actual payments for the year ended September 30, 2017 were $15,768.

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

O. Discretely presented component units (continued)

Long-term liabilities

Economic Development agreements

On April 23, 2012, the City of Kaufman, Texas entered into a 380 development agreement with a developer. Under the agreement, the City agrees to reimburse the developer for certain eligible costs related to public improvements. Under an agreement with the City, beginning April 1, 2015 and continuing annually thereafter, the Corporation has agreed to pay the City three-fourths of the City's annual obligation each year for a total of five payments. The funds to be repaid at September 30, 2017 totaled $529,509. The amount due within one year totals $270,776.

On May 19, 2015, the Corporation entered into an agreement with the City of Kaufman, Texas to provide for the construction of the Highway 34 by-pass project. Under the agreement the Corporation agrees to pay $100,000 per year beginning in fiscal year 2015 for a total of sixteen payments towards the project. The funds to be repaid at September 30, 2017 totaled $1,300,000. The amount due within one year totals $100,000.

Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Corporation					
Economic development agreements	$ 2,211,265	$ -	$ (381,756)	$ 1,829,509	$ 370,776
Compensated absences	8,805	10,015	(10,683)	8,137	8,137
Long-term liabilities	$ 2,220,070	$ 10,015	$ (392,439)	$ 1,837,646	$ 378,913

	Component Unit	
Year Ending September 30	Economic Development Agreement Principal	Economic Development Agreement Principal
2018	$ 270,776	$ 100,000
2019	258,733	100,000
2020	-	100,000
2021	-	100,000
2022	-	100,000
2023-2027	-	500,000
2028-2030	-	300,000
	$ 529,509	$ 1,300,000

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

O. Discretely presented component units (continued)

Subsequent events

Subsequent to year end, the Corporation approved entering into an agreement with an entity for administrative services to be provided to the Corporation for a fee of $42,000.

P. Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor, cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

Q. Subsequent events

Subsequent to year end, the City approved construction contracts in the amount of $286,278 for sanitary sewer construction and $266,023 for water improvements.

Subsequent to year end, the City approved the purchase of 4.51 acres of real property located within the tax increment reinvestment zone in the amount of $638,004. The purchase will be funded through a TIF agreement with the seller.

R. Prior period adjustment

Corrections have been made to the beginning fund balance in the fund financial statements due to an error in classification and recording of a financial transaction in the prior period, resulting in an overstatement of liabilities, an understatement of fund balances, and an understatement of revenues of the prior year. The change to the beginning fund balance as of October 1, 2016 is summarized as follows:

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

R. Prior period adjustment (continued)

	Fund Financial Statements
	Debt Service
As previously reported, October 1, 2016	$10,803,218
Correct overstatement of tax anticipation note payable	365,000
Restated, October 1, 2016	$11,168,218
Effect of restatement on operations for the year ending September 30, 2016:	$ 365,000

NOTE 3 - DEFINED BENEFIT PENSION PLANS

A. Plan Description

The City of Kaufman, Texas participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at *www.tmrs.com.*

All eligible employees of the City are required to participate in TMRS.

B. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

	Plan Provisions
Employee deposit rate	7%
Municipal current matching ratio	2 - 1
Updated service credits:	
Rate (%)	100 T
Year effective	2008R
Increase benefits to retirees:	
Rate (%) (1)	70
Year effective	2017
Military service credit effective date	10-01
Vesting	5 yrs
Service retirement eligibilities	5 yrs/age 60, 20 yrs/any age
Restricted prior service credit effective date	6-97
Supplemental death benefits:	
Employees	Yes
Retirees	Yes
Statutory maximum (%)	Removed

NOTE 3 - DEFINED BENEFIT PENSION PLANS (continued)

B. Benefits Provided (continued)

[1] For years prior to 1982, the rate is the actual percentage in annuities. For 1982 and later, the rate is the percentage of the change in the CPI-U since retirement date, granted to each annuitant as an increase of the original annuity.
T — Includes Transfer Credits.
R — Annually Repeating. Ordinance automatically renews effective January 1 of each successive year.

Employees covered by benefit terms

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	40
Inactive employees entitled to but not yet receiving benefits	52
Active employees	60
	152

C. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Kaufman, Texas were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Kaufman, Texas were 10.15% and 9.01% in calendar years 2016 and 2017, respectively. The City’s contributions to TMRS for the year ended September 30, 2017, were $285,723, and were equal to the required contributions.

D. Net Pension Liability

The City’s Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

NOTE 3 - DEFINED BENEFIT PENSION PLANS (continued)

D. Net Pension Liability (continued)

Actuarial assumptions

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by a factor of 100%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

NOTE 3 - DEFINED BENEFIT PENSION PLANS (continued)

D. Net Pension Liability (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

NOTE 3 - DEFINED BENEFIT PENSION PLANS (continued)

D. Net Pension Liability (continued)

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2015	$ 11,489,565	$ 10,225,358	$ 1,264,207
Changes for the year:			
Service cost	499,848	-	499,848
Interest	730,703	-	730,703
Change of benefit terms	(691,158)	-	(691,158)
Difference between expected and actual experience	96,318	-	96,318
Contributions - employer	-	311,064	(311,064)
Contributions - employee	-	214,527	(214,527)
Net investment income	-	691,376	(691,376)
Benefit payments, including refunds of employee contributions	(446,215)	(446,215)	-
Administrative expense	-	(7,805)	7,805
Other changes	-	(420)	420
Net Changes	$ 189,496	$ 762,527	$ (573,031)
Balance at 12/31/2016	**$ 11,679,061**	**$ 10,987,885**	**$ 691,176**

Sensitivity of the net pension liability to changes in the discount rate -

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1.0% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1.0% Increase in Discount Rate (7.75%)
City's net pension liability	$ 2,210,548	$ 691,176	$ (572,774)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at *www.tmrs.com.*

Payables to the Pension Plan - Legally required contributions outstanding at the end of the year totaled $20,464.

NOTE 3 - DEFINED BENEFIT PENSION PLANS (continued)

E. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the City recognized pension expense (benefit) of $(192,750).

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Changes in actuarial assumptions	$ 121,124	$ -
Difference between projected and actual investment earnings	457,009	-
Contributions subsequent to the measurement date	197,584	-
Differences between expected and actual economic experience	71,684	69,128
Total	$ 847,401	$ 69,128

$197,584 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	
2017	$ 187,389
2018	234,480
2019	159,052
2020	(232)
Total	$ 580,689

NOTE 4 - OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATIONS

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

NOTE 4 - OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATIONS (continued)

TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at *www.tmrs.com.*

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death); retired employees are insured for $7,500; this coverage is an “other postemployment benefit,” or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees’ entire careers.

The City’s contributions to the TMRS SDBF for the years ended 2017, 2016 and 2015 were $5,771, $6,444 and $6,004, respectively, which equaled the required contributions each year.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KAUFMAN, TEXAS

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended September 30, 2017

	Budgeted Amounts Original	Budgeted Amounts Final	Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget
REVENUES						
Property taxes	$ 1,555,967	$ 1,555,967	$ 1,523,111	$ 4,382	$ 1,527,493	$ (28,474)
Sales taxes	2,020,404	2,058,204	2,070,430	(12,228)	2,058,202	(2)
Franchise taxes	437,230	439,430	425,130	(4,559)	420,571	(18,859)
Alcoholic beverage taxes	7,250	9,250	8,028	-	8,028	(1,222)
Licenses and permits	247,735	295,335	288,218	-	288,218	(7,117)
Fines and forfeitures	248,030	175,030	170,229	1,870	172,099	(2,931)
Charges for services	288,980	299,180	297,488	(747)	296,741	(2,439)
Investment earnings	2,260	2,260	2,230	-	2,230	(30)
Miscellaneous	83,965	79,865	79,488	-	79,488	(377)
Intergovernmental	943,346	1,081,660	17,611	1,065,100	1,082,711	1,051
Contributions and donations	1,350	2,750	2,263	-	2,263	(487)
Total revenues	5,836,517	5,998,931	4,884,226	1,053,818	5,938,044	(60,887)
EXPENDITURES						
Current:						
General government	923,096	926,239	883,554	-	883,554	(42,685)
Public safety	2,512,194	2,512,194	2,484,328	(44,127)	2,440,201	(71,993)
Public works	699,800	700,800	676,340	(2,064)	674,276	(26,524)
Public services and operations	412,342	380,342	318,491	(2,013)	316,478	(63,864)
Parks and recreation	375,325	374,325	353,984	-	353,984	(20,341)
Debt service:						
Principal retirement	414,835	415,975	416,946	42	416,988	1,013
Interest and fiscal charges	46,435	45,295	45,393	(42)	45,351	56
Total expenditures	5,384,027	5,355,170	5,179,036	(48,204)	5,130,832	(224,338)
Excess (deficiency) of revenues over (under) expenditures	452,490	643,761	(294,810)	1,053,818	807,212	163,451
OTHER FINANCING SOURCES (USES)						
Transfers in	208,460	208,460	322,407	(44,127)	278,280	69,820
Transfers out	(660,000)	(792,786)	(252,287)	(683,344)	(935,631)	(142,845)
Sale of capital assets	-	-	3,451	-	3,451	3,451
Total other financing sources (uses)	(451,540)	(584,326)	73,571	(727,471)	(653,900)	(69,574)
Net change in fund balances	$ 950	$ 59,435	$ (221,239)	$ 326,347	$ 153,312	$ 93,877

NOTES TO BUDGETARY INFORMATION

1. Budgetary basis of accounting

An annual budget is adopted on the budgetary basis of accounting. Appropriations lapse at the end of the fiscal year. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

CITY OF KAUFMAN, TEXAS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Last 10 Calendar Years (will ultimately be displayed)

	2014	2015	2016
Total pension liability			
Service Cost	$ 405,637	$ 491,919	$ 499,848
Interest (on the Total Pension Liability)	777,889	732,140	730,703
Changes of benefit terms	-	(1,159,659)	(691,158)
Difference between expected and actual experience	(330,714)	(8,006)	96,318
Changes of assumptions	-	261,150	-
Benefit payments, including refunds of employee contributions	(378,062)	(401,635)	(446,215)
Net Change in Total Pension Liability	474,750	(84,091)	189,496
Total Pension Liability - Beginning	11,098,906	11,573,656	11,489,565
Total Pension Liability - Ending (a)	$ 11,573,656	$ 11,489,565	$ 11,679,061
Plan Fiduciary Net Position			
Contributions - Employer	$ 399,817	$ 431,985	$ 311,064
Contributions - Employee	187,080	202,674	214,527
Net Investment Income	529,502	14,738	691,376
Benefit payments, including refunds of employee contributions	(378,062)	(401,635)	(446,215)
Administrative Expense	(5,527)	(8,976)	(7,805)
Other	(454)	(443)	(420)
Net Change in Plan Fiduciary Net Position	732,356	238,343	762,527
Plan Fiduciary Net Position - Beginning	9,254,659	9,987,015	10,225,358
Plan Fiduciary Net Position - Ending (b)	$ 9,987,015	$ 10,225,358	$ 10,987,885
Net Pension Liability - Ending (a) - (b)	$ 1,586,641	$ 1,264,207	$ 691,176
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	86.29%	89.00%	94.08%
Covered Employee Payroll	2,672,571	2,895,343	3,064,670
Net Pension Liability as a Percentage of Covered Employee Payroll	59.37%	43.66%	22.55%

Notes to Schedule:

N/A

CITY OF KAUFMAN, TEXAS

SCHEDULE OF CONTRIBUTIONS

Last 10 Fiscal Years (will ultimately be displayed)

	2015	2016	2017
Actuarially Determined Contribution	$ 387,392	$ 347,168	$ 285,723
Contributions in relation to the actuarially determined contribution	387,392	347,168	285,723
Contribution deficiency (excess)	-	-	-
Covered employee payroll	2,558,729	3,029,037	3,061,302
Contributions as a percentage of covered employee payroll	15.14%	11.46%	9.33%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Notes	Actuarially determined contribution rates are calculated as of December 31 and become effective in January thirteen months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

Notes	1) Granted 70% ad hoc COLA 2) Rescinded 30% repeating COLA

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APPENDIX C

FORM OF OPINION OF BOND COUNSEL

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Proposed Form of Opinion of Bond Counsel

An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Certificates of Obligation, assuming no material changes in facts or law.

(Date)

CITY OF KAUFMAN, TEXAS
COMBINATION TAX AND LIMITED SURPLUS REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2018
IN THE AGGREGATE PRINCIPAL AMOUNT OF $2,670,000

AS BOND COUNSEL FOR THE CITY OF KAUFMAN, TEXAS (the "Issuer") in connection with the issuance of the Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2018, described above (the "Certificates of Obligation"), we have examined into the legality and validity of the Certificates of Obligation, which bear interest from the dates and mature and are subject to redemption on the dates, in accordance with the terms and conditions stated in the text of the Certificates of Obligation. Terms used herein and not otherwise defined shall have the meaning given in the ordinance of the Issuer authorizing the issuance and sale of the Certificates of Obligation (the "Ordinance").

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Certificates of Obligation, including one of the executed Certificates of Obligation (Certificate of Obligation Number T-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates of Obligation have been duly authorized, issued, and delivered in accordance with law, and that the Certificates of Obligation, except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally or by general principles of equity and sovereign immunity of political subdivisions which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Certificates of Obligation have been levied and pledged for such purpose, within the limit prescribed by law, and that the Certificates of Obligation are additionally secured by a limited pledge of surplus net revenues of the Issuer's waterworks and sewer system (the "System") that remain after the payment of all maintenance and operation expenses thereof, and all debt service, reserve and other requirements in connection with all of the Issuer's revenue bonds or other obligations (now or hereafter outstanding) that are secured by a lien on all or any part of the net revenues of the System, all as defined and provided in the Ordinance

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Certificates of Obligation is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Certificates of Obligation are not "specified private activity bonds" and that, accordingly, interest on the Certificates of Obligation will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Certificates of Obligation.

IN EXPRESSING THE AFOREMENTIONED OPINIONS, we have relied on and assume continuing compliance with, certain representations contained in the federal tax certificate of the Issuer and covenants set forth in the Ordinance, relating to, among other matters, the use of the projects being financed or refinanced and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service on the Certificates of Obligation. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Certificates of Obligation may become includable in gross income retroactively to the date of issuance of the Certificates of Obligation.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Certificates of Obligation, including the amount, accrual or receipt of interest on, the Certificates of Obligation. Owners of the Certificates of Obligation should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Certificates of Obligation..

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Certificates of Obligation. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Certificates of Obligation as includable in gross income for federal income tax purposes.

OUR SOLE ENGAGEMENT in connection with the issuance of the Certificates of Obligation is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering our opinions with respect to the legality and validity of the Certificates of Obligation under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Certificates of Obligation for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Certificates of Obligation, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Certificates of Obligation and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of and assessed valuation of taxable property within, and the sufficiency of the pledged revenues of, the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Certificates of Obligation has been limited as described therein.

Respectfully,

APPENDIX D

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER] Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: $__________ in aggregate principal amount of [NAME OF TRANSACTION] [and maturing on]

Effective Date: _________

Risk Premium: $_________
Member Surplus Contribution: $_________
Total Insurance Payment: $_________

SPECIMEN

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: ____________________________________
Authorized Officer

SPECIMEN

Notices (Unless Otherwise Specified by BAM)

Email:
claims@buildamerica.com
Address:
1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281
Telecopy:
212-962-1524 (attention: Claims)

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Financial Advisory Services
Provided By

FirstSouthwest
A Division of Hilltop Securities